FINANCE - GENERAL

1992

JANUARY

MONEY SUPPLY

In check

58 FM 3/1/92

The broad monetary aggregate M3 grew by an annualised 9,24% between February and November, according to Reserve Bank provisional figures. Though up on the annualised 7,45% between February and October, it remains within policy limits.

February is used as the base month because subsequent growth is free of that month's technical distortions which substantially boosted monetary growth as various transactions, previously not reflected on banks' balance sheets, were brought within the definition of money supply.

M3 grew 13,84% to R182,1bn over 12 months, while from the base of the current target year in mid-November the annualised rate is 15,1% to a seasonally adjusted R182,1bn.

Revised figures for October show M3 grew at a marginally lower rate than the provisional figures published last month:

- Over 12 months, 15,77% to R179,9bn;
- From the base of the current target year, an annualised 14,22% to R178,7bn; and
- From February, an annualised 9,24%.

Growth over 12 months to October in the other monetary aggregates was:

- M1A 15,6% to R30,8bn;
- M1 24,85% to R58,5bn; and
- M2 21,71% to R152,2bn.

From February to October credit extended to the private sector grew at an annualised rate of 12,7% to R189,9bn. ■

FM 3/1/92 (58)

SASFIN FM 3/1/92

Impressive record

(58)

Activities: *Specialist financial and related services.*

Control: *Directors 57,5%.*

Chairman: *M B Glatt; MD: R D E B Sassoon*

Capital structure: *11,3m ords. Market capitalisation: R11,3m.*

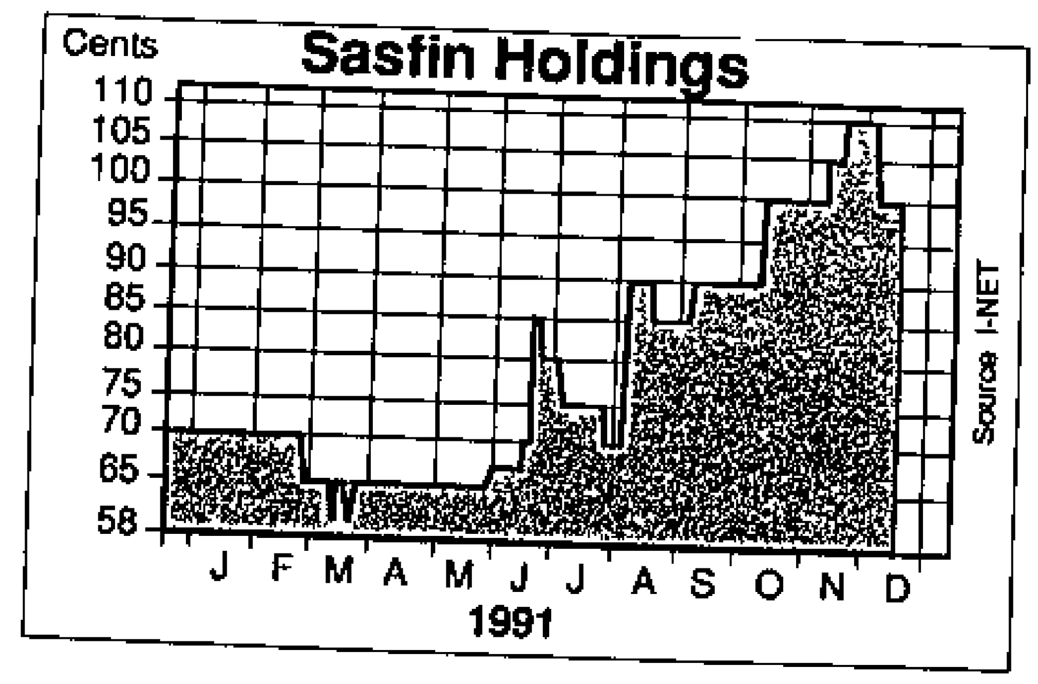
Share market: *Price: 100c. Yields: 8,5% on dividend; 21,3% on earnings; p:e ratio, 4,7; cover, 2,5. 12-month high, 110c; low, 60c. Trading volume last quarter, 13 000 shares.*

Year to June	'89	'90	'91
Receivables (Rm)	14,0	17,1	19,7
Attrib income (Rm)	1,6	2,0	2,4
Return on assets (%)	10,8	11,2	11,8
Debt: equity ratio	2,1	2,1	2,5
Earnings (c)	14,1	17,7	21,3
Dividends (c)	5	7	8,5
Net worth (c)	39	51	67

One of the rare shares to be promoted, after little more than a year, from the DCM to the main board of the JSE, Sasfin has grown remarkably steadily since its listing in November 1987. Major assistance has probably come from the endemic weakness of the rand; a few years ago it was said that about half profits were earned in sterling and operations director Derek Krowitz tells the *FM* it's still much the same.

The report does not comment on this, though it does disclose that the remarkably low tax rate (only 2%, against 3% in 1990) derives about two-thirds from export incentives and one-third from paying tax in foreign jurisdictions where rates are lower than in SA — indeed, it may be inferred, largely in tax-exempt offshore havens. There are also tax losses carried forward of R1,6m.

Chairman Martin Glatt says that since the listing Sasfin has progressively become a



more sophisticated and significant asset-based financier, with a strong and proven infrastructure. He is particularly proud of the participation last year in SA's second securitisation, in collaboration with the Discount House group. The first R30m tranche of asset-backed debenture stock of Sasfin Asset Securitisation is already listed.

A new subsidiary has been registered in Malawi and, since year-end, Techrent Natal (Pty), an equipment finance broker with offices in Durban and Maritzburg, has been acquired. An equipment finance marketing office has been opened in Cape Town.

Gross receivables (including those administered but not shown on balance sheet) soared from R34,3m to R63,5m. Krowitz tells the *FM* this reflects in part banks' reluctance to lend and in part the withdrawal of some competitors.

Low disclosed gearing of 2,5:1 gives substantial financial capacity. It has been suggested that Sasfin is heavily into off-balance sheet finance, but Krowitz does not see a possible clamp-down on this as a problem at this stage, securitisation being one way out.

With growing opportunities for trade in southern Africa and expectations of a marginal fall in interest rates and modest return to real growth both inside and outside SA, Glatt says that Sasfin is well placed to expand further, improving performance without lowering the quality of receivables.

The share, in common with many in the Banks & Financial Services sector, has been rerated in the past year. When the *FM* reviewed the 1990 report, it was still 60c — coincidentally, the price of the 1987 prelisting issue, that had seldom been topped. Though a little off the recent high of 110c, it could still have further to go, as companies like this will be in the forefront of our reopening to world trade.

Michael Coulson

FM 3/1/92 (58)

NEDCOR

Slower growth ahead

Activities: *Banking and related financial services.*
Control: *Old Mutual 52,9%.*
Chairman: *J B Maree; CE: C F Liebenberg.*
Capital structure: *186,0m ords. Market capitalisation: R2,939bn.*
Share market: *Price: 1 580c. Yields: 3,6% on dividend; 11,7% on earnings; p:e ratio, 8,5; cover, 3,2. 12-month high, 1 600c; low, 975c. Trading volume last quarter, 2,1m shares.*

Year to Sept 30	'88	'89	'90	'91
Total assets (Rbn) ...	16,8	29,7	35,1	41,6
Advances (Rbn)	11,0	20,2	24,4	30,8
Deposits (Rbn)	13,1	24,4	28,9	35,4
Operating profit (Rm) .	n/a	493	664	790
Attrib profit (Rm)	174	257	287	344
Return on assets (%) .	1,03	0,86	0,82	0,83
Return on equity (%) ..	19,0	18,2	17,3	17,9
Earnings (c)	111	138	154	185
Dividends (c)	40	46	51	57
Net worth (c)	584	758	891	1 031

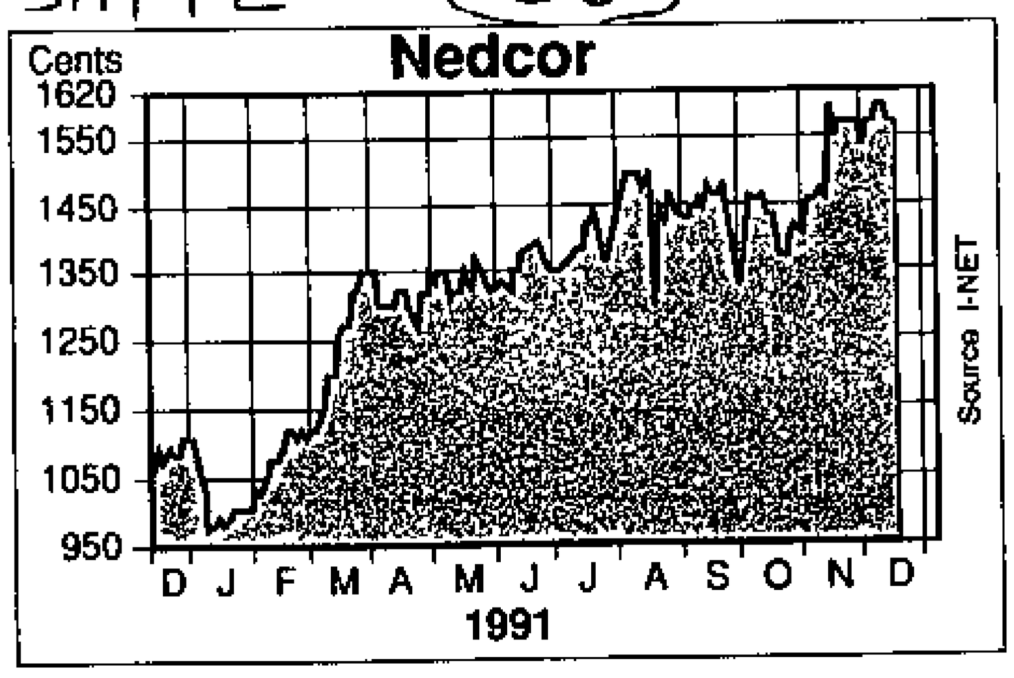
Though Nedcor is forecasting further growth for 1992, the annual report makes clear that it may not match last year's 20% EPS gain.

As with other financial institutions, one of the most pressing problems is VAT and the related levy on services that, says CE Chris Liebenberg, would have pushed the group tax rate from 38% to 45% if applied to 1991 results. This represents a cost of R35m, though Liebenberg adds that more effective tax management would reduce the impact.

In addition, there is reason to believe Nedcor will benefit less than most from an upturn in the economy. Thanks to its strong financial base, the group has been able to expand market share aggressively during the recession. Over the past two years total assets and advances have increased by 40% and 52% respectively.

Contributing to the satisfactory financial position — the September 30 risk-weighted capital ratio was 7,4%, within striking distance of the 8% requirement by 1995 — is a large exposure to the home-loan market, that carries a lower capital requirement. Since the merger with the Perm at the start of the 1989 financial year, home loans have re-

Nedcor's Liebenberg ... *benefits of regrouping*



mained the largest single element in the lending portfolio. Even though the emphasis slackened last year, they still accounted for 40% of total advances.

However, while this may be good for the balance sheet, it has been less so for the income statement, and this situation could continue even once the economy turns.

Unrest and increasing defaults as home-owners increasingly felt the recession were largely responsible for last year's 47% jump in bad debt provisions. Of the total R233m (1990: R158m), the Perm's share was a disproportionate R114m (49%). Viewed another way, of the total R75m increase, the Perm accounted for R62m (83%), resulting in a static profit from this source even though certain nonrecurring, nontaxable income was brought to account.

While this particular problem at the Perm is likely to taper off in more favourable economic circumstances, it could be replaced by another: a squeeze on margins when interest rates decline.

One peculiarity of banking is that the industry seldom performs well when interest rates are in a downward cycle. The reason is that lending rates normally drop sooner than retail deposit rates (most fixed deposit rates, for example, can be adjusted only on expiry of the relevant investments), a phenomenon particularly concentrated in the home-loan market since mortgages are traditionally linked to short-term interest rates whereas the funding of these loans, because of their nature, is more inclined to be long term.

As a group, Nedcor has tried to protect itself by shortening its deposit book. It is also protected to a degree by its emphasis on wholesale business. But while this may alleviate the problem, with the large home-loan exposure it is unlikely to eliminate it.

More positively, some of these adverse effects will be offset by benefits from ongoing regrouping and co-ordinating of group activities, through enhancing the performance of individual divisions and containing costs as duplicated functions are eliminated.

One problem Nedcor has had in recent years is that costs have risen at a rate substantially ahead of inflation. This, however, has been affected by major outlays on things like information technology and market development, and should moderate as the new structure settles down.

Forecasting in current conditions is hazardous, but EPS growth is likely to be closer to last year's 10% gain in pre-tax income than the 20% improvement in earnings — in other words, the group will do well if it stands still in real terms. However, even a 10% rise in dividend would take the yield, at 1 580c, to around 4%, suggesting that the share still offers fair value. *Brian Thompson*

FM 3/1/92.

Their best efforts

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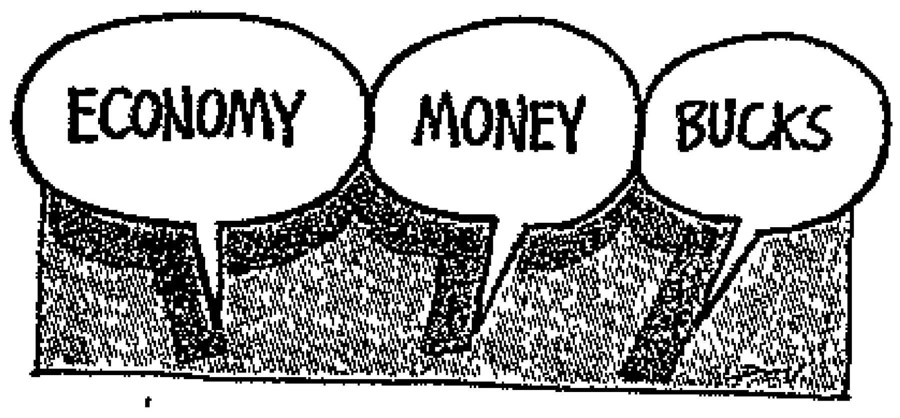
Among recommendations made in the Report of the Committee for Economic Affairs on *A strategy, goals and policy for obtaining active consumer co-operation in action against price exploitation and inflation* — an inflated enough title all on its own — was the following:

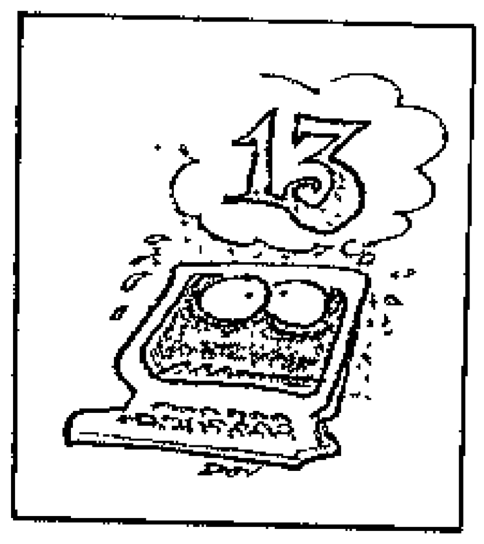


"The powers at work in the monetary sphere and their effect are discussed mostly in highly technical language which is unintelligible to the greater part of the general public and which does not succeed in stimulating their involvement and co-operation. The committee therefore recommends that a comprehensive attempt be made with the aid of communications experts to make the information, in so far as it is relevant to the different groupings of the community, available in terms that are understandable to each one of these groups."

Now, who managed to understand that?

Some further oddities:

□ First National Bank extended the numbers of its mortgage bond accounts from 11 to 13 numbers. However, the Automated Clearing Bureau, which co-ordinates payments between the banks, could not cope with 13-digit numbers. So clients were advised to use their old numbers and bank staff transferred the funds manually until the problem was sorted out;



□ An error made in February 1990, by the Central Statistical Service (CSS) when calculating producer price inflation, grew over the following months, like Jack's beanstalk, to gigantic proportions. By June 1991, producer price inflation was recorded as 14,1% (up from 13% in May). The pressure came mainly from food prices which, over 12 months, were said to have risen 42,1%; the rise in the month of June alone was reported to be 8% for agricultural food and 2,1% for manufactured food products. When these figures were published on August 12, rates in the bond market moved sharply up — the benchmark Eskom 11% gaining 14 basis points within hours of publication to close at 16,36%.

CSS then investigated its own figures. On August 27 came news that "*bona fide*" processing errors had been made over 17 months which by June had resulted in an overstatement in agricultural inflation of 34,3 percentage points while the figure for total producer price inflation was out by 2,9 percentage points.

The Eskom 11% that day shed 11 points to close at 16,55%. But much of the damage, in terms of inflationary expectations, has not yet been repaired. The artificially inflated figures no doubt helped set the scene for increases in consumer prices, which are now a potent force in sustaining consumer food inflation at nearly 26%;

□ In January 1991, Pretoria Bank hoped to enter into a partnership with a large financial institution, to raise its capital base. The lure, it suggested to the *FM* at the time, was its link with Masterbond Trust which had a 10% stake in the bank. In April it was planning a merger with Masterbond and a rights issue to raise cash. A few months later the Pretoria Bank was placed in curatorship. In October Masterbond went into provisional liquidation;

□ Lured by deposit rates much higher than those offered by the rest of the market, the SA Rail Commuter Corp deposited R249m with Cape Investment Bank. The bank has been put into final liquidation and the circumstances surrounding its demise have been the subject of a Section 417 (secret) inquiry. The fate of Commuter Corp's deposit has still not been decided; and

□ A survey was conducted by KPMG Aiken & Peat's Banking & Finance Group into the level of disclosure in the financial statements of the 10 domestic banks. Of 17 requirements against which the banks were measured, Saambou failed to comply with a single one.

Ethel Hazelhurst

Metfund's units return 37,3 percent

(58)

STAR 3/1/92.

Finance Staff

The Metfund unit trust outperformed the overall index of the Johannesburg Stock Exchange, but warns that a similar performance in 1992 is unlikely as the equity prices are very expensive at current levels.

For the 1991 calendar year Metfund provided unitholders, who reinvested their distributions, with a total return of 37,3 percent.

Excluding the income distributions, consisting of dividend and interest earned, Metfund achieved pure capital growth of 32,5 percent against the 24,9 percent of the benchmark JSE overall index.

Metfund increased its gold exposure to just below six percent of the fund via the acquisition of holding in Hartebeesfontein and Ofsil, and also bought more shares in Samancor.

Platinum exposure was cut before the dramatic retreat in the platinum price of the last few weeks. Rustenburg Platinum was partly sold for cash and partly switched into Impala Platinum.

On the industrial side a new holding in Fraser Alexander was established while more Sunbop shares were accumulated.

Scope for real earnings growth in 1992 is limited and dependent on the rather uncertain advent of an economic upturn.

From a longer term perspective the outlook still looks positive, says Hendrik du Toit, fund manager.

Trade soars in 'old' life policies

By DIRK TIEMANN

S Times (BUSS) 5/1/92

DEMAND for second-hand life and endowment policies is outstripping supply as investors become aware of the tax advantages in store.

Insurance brokers say 95% of the holders of eight-year or older policies are unaware that they can multiply their original premiums to boost their tax-free payout on maturity.

The older endowment policies are especially attractive. Policies bought before 1985, allow the holder to increase premium payments five times the original amount. The premium may not be tax free, but the lump sum received at the end certainly is.

Policies bought before 1985 could cover, say, husband and wife, paying out only on the second death, allowing for longer terms, increasing the tax-free jackpot. This changed in 1985, when the payout occurred on the first death.

Most policyholders are ignorant of these advantages and realise the potential only when asked by a broker to sell.

Liberty Life assistant general manager Gavin Came says there are two markets. One is the life market which does not really sell as an investment. The other is the endowment market, which is more of an investment vehicle.

Mr Came says surrenders with assurers have almost dried up because intermediaries are advising policyholders to sell their endowments at a price way above the cash value and not to surrender them.

Some brokers advertise these second-hand policies as a good investment opportunity for 1992 and beyond — for anyone who can still afford to buy them.

(58)

Vast

Executive director of the Life Offices' Association Dick Geary-Cooke says sales could have increased slightly. A policyholder has options if he struggles to pay premiums.

He can surrender the policy at a vastly reduced price, regard it as paid up and cease premium payments prematurely.

He can sell the policy — the most sensible option.

The surrender value of a policy is low because the cost to the assurer of keeping it on the book, originally spread over its life, is now brought forward.

Nedcor runs tighter ship

S Times (B ...) 5/1/92

By DIRK TIEMANN

THE NEDCOR group is running a tighter financial services division in an attempt to "avoid duplication and to achieve greater co-ordination" among subsidiaries, says chief executive Chris Liebenberg.

The financial services division consists of the two merchant banks — UAL and Finansbank — and Syfrets Holdings.

Mr Liebenberg says in the Nedcor annual report that financial services have been operating as separate units.

"An initiative to co-ordinate these activities where appropriate as a financial services group is under way and significant progress has been made in various areas, for example the offshore activities of UAL and Syfrets."

The report mentions that the banking operations of Nedbank, Perm and Nedfin were regrouped in April 1991.

Five divisions were set up in Nedcor's banking division under one managing director, with expectations of "significant rationalisation benefits".

Remiss

Mr Liebenberg says it is too soon to speculate about a major restructuring, but "we would be remiss if we did not look at it".

He says it was easier to restructure the banking operations because administrative costs could be trimmed. Merchant banking on the other hand is based on human capital and there are fewer opportunities to rationalise.

Mr Liebenberg says the group's basic philosophy is to strengthen brand names, increase efficiency and improve market focus.

He describes the group as a combination of six niche players, whose markets will become even more narrowly defined.

On the international front, steps will be taken to avoid competition between the different products of UAL and Syfrets. Syfrets recently linked up with UAL in Associated Trust Company on the Isle of Man.

He denies that there is excessive duplication between the two merchant banks. They have different income streams and customer bases.

Mr Liebenberg says divisionalisation as happened on the banking side might be an option, but the brand names will be maintained.

Nedcor could gain from a reorganisation of financial services. Decentralised structures are expensive. With costs rising 22% in the year to last September, some sort of reorganisation must seem attractive

Nedcor director Leon Porter says there will be no major mergers and there "is no question of getting rid of anything".

(58)

Sour

Some commentators believe Nedcor may either merge Fianansbank with UAL or sell it. Finansbank, the smaller of the two, has seen several deals turn sour and provisions of R17-million have been made against potential losses.

Finansbank's contribution to group earnings plunged 22% in the year to September and consolidated net income was down 28,5% at R14-million.

Mr Liebenberg says the recent appointment of Izak Botha as managing director of Finansbank precludes any sale or merger of the bank.

THE MONEY MARKETS by Sheridan Connolly

Reserve Bank resists sliding rates

THE Reserve Bank continued its struggle against strong liquidity levels and sliding rates this week. (58) (

Despite a high Treasury bill tender of R200m, the allotted rate came in four times oversubscribed at 16,09%, down from last week's 16,13%, indicating that liquidity levels are unchanged.

Continued downward pressure on rates indicated the market is anticipating an imminent cut in the official Bank rate. Market players expect a cut of at least one percentage point within the next two months, and institutions are thus funding short- rather than long-term investments.

Reserve Bank Governor Chris Stals has so far ignored the market's lead for a cut in Bank rate but some analysts expect him to bow to pressure should the December consumer inflation rate come in lower than November's 15,5%.

The 90-day BA rate eased to 16,35%, bringing it to 1,15% points below the Reserve Bank's 17,5% rediscount rate, and with little room for any further downward movement, some analysts feel rates are at rock bottom. B/Day 6/1/92

The money market shortage dropped to R1,407bn on Thursday, far down from R2,864bn on Tuesday. The drop, which was in line with market expectations, followed a routine inflow of money arising out of government spending which is processed at the beginning of every month.

In the capital market, trade was quiet and volumes were thin with a general lack of interest following the festive season.

Rates followed a downward trend this week with players expecting a cut in official interest rates. The key Escom 168 dropped to 16,12%. Interest was mainly in the medium-term stock which would offer investors a better value should there be any cut.

Entry of foreign banks a fillip for the local sector

S Bus Day 6/1/92 (SB)

SIMON WILLSON

ENTRY of new foreign banks into SA can only aid the banking industry's existing trends towards higher technology, lower handling costs and higher quality of service, says the Bank of Lisbon.

Furthermore, foreign banks could boost SA's foreign trade, promote the country's role as a regional financial centre and broaden the base of the local foreign exchange market.

In its latest Economic Focus, the bank notes the revival of interest in SA operations among foreign banks. It says "several dozen" such banks have opened representative offices in SA since the introduction of domestic political reforms and the loosening of local financial regulations.

The Bank of Lisbon finds few potential drawbacks in the local financial services industry as foreign banks are established.

Shortages of skilled labour in the banking sector should not be intensified, since considerable retrenchments of bank staff have occurred over the past year or so and could be followed by more.

Neither should the arrival of foreign banks create an overtraded banking sector, says the bank's report. "SA may be underbanked in the sense that large numbers of non-whites do not possess bank accounts, and this could mean that large financial resources may be currently untapped by the banking system."

As trade between SA and the rest of Africa expands, new foreign banks could help provide buyers' credits for the increasing number of SA exporters wanting to sell into Africa.

New foreign banks could also help the SA financial system make a bigger contribution towards economic development in other African countries. "Financially, SA could easily become a convenient intermediary operating between the developed financial markets of the industrial countries on the one hand and the developing countries in Africa on the other", helping to promote SA as a regional financial centre.

A long-standing deficiency of the local foreign exchange market is the limited number of active dealing banks. New foreign banks which conducted forex business would add to the liquidity of the local market.

They could also, by opening up new credit lines, alleviate those problems experienced by domestic banks whose limits on forward commitments come under pressure.

No new foreign banks have been established since 1970, and three have withdrawn from the country. Among the obstacles still remaining to foreign banks setting up in SA are the debt standstill and the prohibition on the establishment of foreign bank branches in SA.

The debt standstill is a problem because international capital adequacy standards mandate that provisions be made against new lendings of more than a year to any country which has debt-rescheduling arrangements in force.

Home buyers lose out on interest payments

B/Day 4/11/92 (58)

PETER GALLI

MANY home buyers were not being paid interest on deposits for properties they were in the process of buying, industry sources said at the weekend.

The position was also applicable to people who paid deposits for the leasing of flats or houses, they said.

"Unscrupulous estate agents are failing to inform home buyers that they are entitled to interest paid on any deposit placed when renting or buying property," one source said.

An agent, speaking on condition of anonymity, said there was no binding obligation on estate agents to inform consumers that interest was payable on these deposits, either until transfer took place or the lease was terminated.

"If the lessee/purchaser is unaware that he is entitled to any monies when paying his deposit, this money will automatically be paid to the agent and the board in an equal split," he said.

Estate Agents' Board assistant manager Clive Ashpol said unless there was a written agreement, interest was legally payable to the Estate Agents' Board in full.

"This money is placed in a board fidelity fund, to be used for the protection of the consumer should any of his monies be misappropriated by the agent.

"However, due to the high costs to the agent of maintaining a trust account for deposit monies, the board had resolved to return 50% of any interest received to the agent," he said.

A major property dealer said home buyers should insist that interest payment at a fixed rate be made at the time of signing

□ To Page 2

Home buyers

B/Day 6/11/92 (58)

□ From Page 1

an offer-to-purchase agreement. This could be negotiated with the agent, but should be written into the agreement, he said.

A property consultant said the situation "smacked of planned deceit" on the part of the Estate Agents' Board.

However, Ashpol said the board did everything in its power to protect the interests of the consumer.

"We have a recommended offer document that covers the issue of interest payable on a deposit, but this document is not enforceable on agents."

He said the board had submitted a new code of conduct to the Department of Trade and Industry, which imposed an obligation on the agent to make full disclosure to the consumer.

This would hopefully be approved by the department and come into force early this year. However, the board had no powers of restitution and was able to deal only with ethical and disciplinary matters.

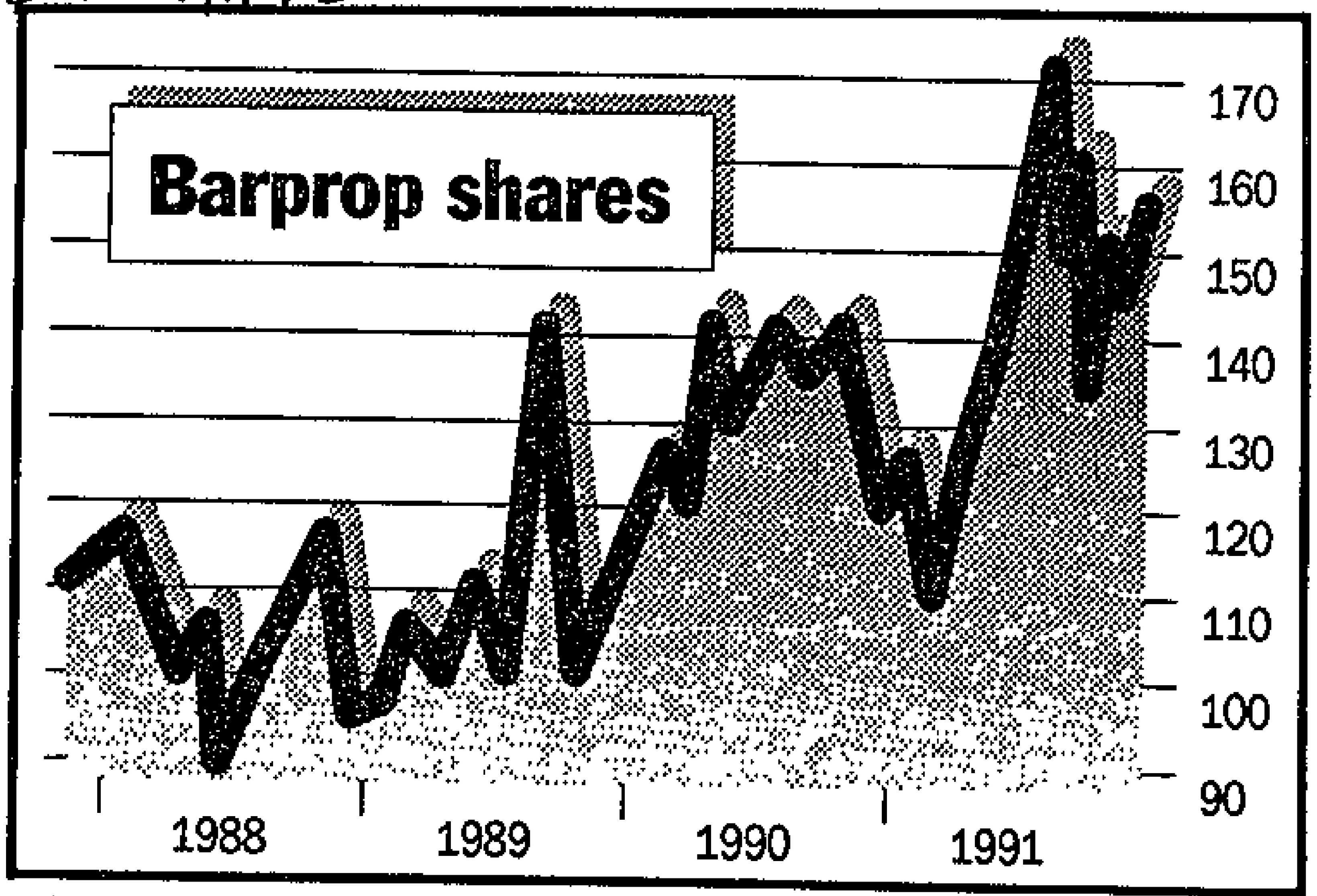
Barprop foresees ongoing difficulties

STAR 6/1/92

Diagonal Street

(58)(830)

LYNNE PEACH



Barprop's performance in financial 1992 is expected to be hindered by continued difficult trading in the property market and fewer new developments.

Nonetheless, chairman EM Groeneweg predicts in the annual report that the dividend, based on cover of 1,2 times, will increase six percent from 11,5c a share to 12,2c.

He says growth in 1992 will come from rental escalations in respect of existing leases, additional rental income from acquisitions and new developments and interest from cash held for investment.

It is actively engaged in the acquisition and development of investment properties mainly in centralised areas, the maintenance of existing developed properties and the leasing of accommodation to financially sound tenants.

Barlow Rand holds 78 percent of the ordinary share capital and 100 percent of the deferred ordinary shares.

In the year to September, group turnover moved up marginally from R48,5 million to R48,9 million, while operating profit declined from R43,8 million to R43 million.

Mr Groeneweg attributes the marginal decline in operating income to lower rental income resulting from the disposal of certain investment properties and a higher requirement for property maintenance.

After income from investments grew 34 percent from R8,5 million to R11,4 million and interest expense increased eight percent from R33 million to R35,5 million, pre-tax profit fell two percent to R18,8 million.

A decrease in the effective tax rate from 49,5 to 42,2 percent resulted in attributable profit rising 12 percent from R9,8 million to R10,9 million.

Mr Groeneweg says the decreased tax charge follows deductions for repairs to property and a lower rate of company taxation.

Based on a higher number of shares in issue, earnings per share increased nine percent from 12,96c to 14,18c. The dividend for the year was 11,53c a share, eight percent higher than the payout of 10,71c in financial 1990.

The extraordinary profit of R2,4 million relates to a net surplus on disposal of properties.

The balance sheet remains strong, with cash on hand of R63,9 million and investments properties valued at R510 million.

Barprop, priced at 155c is trading on a P/E ratio of 10,9 and provides a dividend yield of 7,4 percent.

A projected dividend of 12,2c a share in financial 1992, places the share on a forward dividend yield of 7,9 percent.

COMMENT: Barprop touched a high of 170c five months ago before losing ground to 135c and recovering to its current level of 155c. A break below 145c will signal a reversal of the positive trend.

IPG in tie-up with Gradwells

(58) STAR 6/1/92

By Frank Jeans

In a major deal to start off the new year, Investec Property Group (IPG) has acquired the management division one of the country's leading property companies, Gradwells Real Estate Management.

While the financial details of the transaction have not yet been disclosed, the deal adds managed assets valued at approximately R600 million to IPG's countrywide portfolio, which is at present considered to be worth more than R2 billion.

Included in the deal is the newly formed Braamprop variable loans stock company.

Marc Wainer, the managing director of IPG, says the Gradwells portfolio of more than 300 buildings is concentrated in the greater Johannesburg area and that it complements the managed portfolio of IPG's wholly owned subsidiary, I Kuper & Company.

Property trusts

IPG also manages the Metprop and Growthpoint listed property trusts.

"Property management is becoming a highly specialised business demanding considerable back-up resources by way of computerised operation and specialised staff," says Mr Wainer.

"The introduction of VAT alone has required extensive updating of computer programmes related to property management.

"Both IPG and Gradwells clients will benefit from the economies of scale that the enlarged business will create."

Ronnie Sevitz, the managing director of Kupers, sees the deal as opening up a much wider spread of financial and accounting services.

Syndication arm

Investec Property Group was formed in 1990 when Investec Bank merged its I Kuper property management business with its Incity Real Estate investment and syndication arm.

Gradwells' sectional title conversion, commercial letting and broking and valuation businesses will continue to operate separately from IPG under the direction of the managing director, Konrad Rosen.

Women hope to found own bank

TIM COHEN (58)

AN INFLUENTIAL group of women, including high-ranking members of the ANC, is investigating the possibility of creating a women's bank to improve women's financial muscle.

One of the women, Llrato Matlare, confirmed yesterday that the group, which included ANC international affairs director Thabo Mbeki's wife Zanele, was investigating the possibility of establishing such a bank.

However, she emphasised that the idea was still at conception stage and that no formal structures had been established. BDay 8/1/92

Nor had the proposed Women's Development Bank finalised ideas on how it would relate to other financial institutions or the timeframes for its establishment.

Talks with a wide range of organisations were taking place, Matlare said, although she denied that the UN had been approached with the idea.

One possibility is that the bank will only allow female customers.

It is likely to be aimed at developing women's community projects.

Some form of credit and savings scheme specifically designed for women's needs, particularly poor women, is also being canvassed.

Matlare said the group was exploring various ideas for the proposed bank, which could take one of many forms.

Sanlam's Dividend Trust leads pack

Biday 8/1/92. (58)

LINDA ENSOR

CAPE TOWN — Sanlam's Dividend Trust was the best-performing unit trust in 1991, a survey by the University of Pretoria's Graduate School of Business has shown.

The Dividend Trust produced a total return of 44,7%, while the Sanlam Industrial Trust, which was tops in 1990, took second place last year with a 44,6% return.

While the Industrial Trust ranks second in the industry over a three-year term and first over five years, the Dividend Trust has been one of the worst performers among general funds over a five-year (18,81%) and a 10-year (18,21%) period.

The Dividend Trust converted from a specialist fund to a general fund on September 1 last year.

Sanlam Unit Trusts GM Otto Jaekel said that as a specialist fund it had invested only in shares which generated a high income. It was decided to convert the Dividend Trust into a general fund to enable its share portfolio to achieve capital growth.

General trust Sanlam Trust produced a total return of 33,6% last year while the Sanlam Index Trust achieved a return of 30,6% compared with growth in the JSE All Share index of 25,7%.

The performance of the Sanlam Mining Trust, which generated a return of 16,3%, was affected by the difficult year experienced by most mining shares, said Sanlam senior portfolio manager Stafford Thomas. The All Gold Index declined 4,9%.

However, Thomas believed 1992 should see a revival of mining shares. He said industrial shares should continue to advance but at a slower pace.

"Mining shares should show an improved performance this year given that the upturn in the US economy materialises. The recent strength of the US stock market supports this view."

There was no fundamental restructuring of portfolios in the last quarter of 1991, Thomas said, and the mix of mining and industrial shares and liquidity levels remained much the same as in the previous quarter.

Sanlam unit trusts as a whole were heavy purchasers of Murray & Roberts shares in the last quarter, buying a combined 740 000 shares. A total of 580 000 Malbak shares were bought, while other large purchases were the 170 000 Pick & Pay Holdings and 177 600 Tradehold shares bought by the Industrial Trust. The Index Trust bought 132 400 Sasol, 100 000 Beatrix, and 74 500 GFSA shares. The Dividend Trust bought 100 000 Mid Wits shares and 52 200 CNA Callo counters.

The largest sales were the 1,5-million Rainbow and 75 000 Altron shares sold by the Industrial Trust and the 73 200 Trans Natal shares disposed of by the Mining Trust. The only other fund to sell off shares was the Dividend Trust, which sold 25 000 from its Kinross holding.

At end-December liquidity levels were as follows: Sanlam Trust 8,1% (10,8% at end-September); Sanlam Index 10,2% (9,2%); Sanlam Dividend 16,4% (15%); Sanlam Industrial 15% (15,7%) and Sanlam Mining 11,5% (7,1%).

By the end of 1991 there were 209 000 investors in Sanlam's five unit trusts, which had a total value of more than R1,7bn. The Industrial Trust declared an income distribution of 16,2c a unit, the Index Trust 24,8c, and the Mining Trust 7,8c. The next distributions of Sanlam Trust and Sanlam Dividend Trust will be declared at end-March.

Syfrets edges away from pricey equities

58

B/Day 8/1/92

ANDREW GILL

SYFRETS Managed Assets, which manages the Syfrets unit trusts, has increased liquidity in both its equity-based portfolios and picked up gilt-edged securities in a move away from overpriced equity markets.

Announcing results for the three trusts, portfolio managers said world equity markets were overpriced following "questionable" rises in share prices. B/Day

World markets had been spurred by the sharp fall in interest rates while the JSE had followed this lead with help from continued buying pressures from institutions constantly deploying their growing cash flows.

"Although the international environment will be more positive for economic growth in 1992, world markets remain on very high ratings. We therefore believe world share markets will remain vulnerable during the coming three to six months," they said.

Results for 1991 show Syfrets Growth Fund achieved returns in excess of the equity market and inflation.

An all-in return of 41,57% for unit holders was reported compared to a 26,5% return for the JSE overall index and inflation of about 15,5%.

Income distribution of 2,59c a unit in the fourth quarter brought total distribution for the year to 11,62c. Total assets grew to R459,4m from R261,3m. 8/1/92

Reporting for the first time, Syfrets Trustee Fund distributed 1,33c a unit in the fourth quarter, resulting in a return of 6,53% for the three months. Total assets were R336,7m.

Syfrets Income Fund reported a 4,07c payment for the quarter, bringing to 15,84c a unit the payment for the year.

Safegro fund boasts 31% return

B/Day 8/1/92

NINA SHAND

IGI'S Safegro Unit Trust has reported an average 31,2% total return on its repurchase-to-repurchase value for the 12 months ended December. (58)

IGI Fund Managers fund manager Peter Linnell said the return compared favourably with the inflation rate and beat the JSE All Share Index's 26% rise for the year.

The fund's total assets rose 34% to R31,2m while it boosted its stake in blue chip holdings for the quarter. The Safegro fund's main equity investments at the year end were Richemont, Sunbop, Safren, Salife, Anglos, De Beers, Engen, SA Breweries and ABSA. It added Investec Bank to its holdings while increasing its interests in Royfood and Rembrandt.

Linnell said the fund decreased its liquidity to 12,5% from 15,6% for the last quarter. He did not expect liquidity to change dramatically this quarter.

Although Linnell expected the market to remain bullish in the long-term, he said its performance would probably be sluggish for the first half of the year: "A slower global recovery ... coupled with the fact that market ratings are near all time highs may impact on equity performances in the initial stages of this year," Linnell said.

In the longer-term, Linnell expected the anticipated drop in interest rates, the lifting of sanctions and the present scrip shortage would see the market move higher over the next two years.

The fund's main equity exposures were industrial holdings (17,93%), mining houses (9,51%) and beverages and hotels (7,24%).

Sanlam, Syfrets trusts do well

STAR 8/1/92 (58)

By Sven Lünsche

The selective investment portfolios of unit trusts once again ensured that most funds offered good returns to their investors in 1991.

Funds in the Sanlam and Syfrets stables, which released their 1991 returns yesterday, show returns in excess of 30 percent over the year, compared with the 25,7 percent growth rate of the JSE overall index.

However, the bulk of their investments are limited to about 20 key blue-chip industrial and mining shares, which have driven the market over the past few years.

Sanlam's two major funds — the Dividend Trust and the Industrial Trust — showed returns of 44,7 and 44,6 percent respectively, while Syfrets Growth Fund's return was 41,57 percent.

Stafford Thomas, senior portfolio manager at Sanlam unit trusts, says that industrial shares should continue their advance into 1992, but at a slower pace than last year.

He expects an improved performance from mining shares, depending on the recovery of the US stock market.

The portfolio managers of Syfrets Managed Assets, which manages the three Syfrets trusts, say the share market has been propelled upwards, not only in the slipstream of overseas markets, but by ongoing buying pressure of institutional cash flows chasing a shortage of quality scrip.

Sanlam's other two general trusts, the Sanlam Trust and Index Trust, produced returns of 33,6 and 30,6 percent, while the Mining Trust returned 16,3 percent.

The following income distributions have been declared: Index Trust — 24,8c, Industrial Trust — 16,2c, Mining Trust — 7,8c.

Syfrets Growth Fund's total assets at year-end were R459,4 million, up from R261,3 million a year earlier.

A total income distribution of 11,62c has been declared.

Its Trustee Fund, launched at the beginning of October and reporting for the first time, distributed 1,33c a unit, making a total return for the quarter of 6,53 percent.

The Income Fund paid 15,84c, while the fund's total return on the relatively risk-free portfolio of fixed-interest investments was 14,92percent.

● IGI Life Fund Managers unit trust Safegro put in a strong performance for the year to December, reporting a total return in excess of inflation and the overall share index.

The return on capital plus income yielded 31,2 percent. Assets rose from R23,2 million to R39,1 million.

Ailing Brand gives up DBSA duties (58)

LESLEY LAMBERT

SIMON Brand relinquished his duties as chairman and CE of the Development Bank of Southern Africa (DBSA) yesterday after a sudden deterioration in his health.

Brand, who has been receiving treatment for cancer, was admitted to hospital on Monday. His condition was described by colleagues yesterday as serious.

Interim arrangements to fill the positions which he has held since the DBSA's inception in 1983 were implemented yesterday. The functions of DBSA chairman and CE were separated, with president of the DBSA council of governors, former Finance Minister Owen Horwood, appointed chairman and GM, and Andre la Grange acting CE. BIDay 8/11/92

Brand has played an influential role in economic planning in SA. He has long been associated with reformist socio-economic thinking and has been a key participant in most of the major recent socio-economic development initiatives.

The credibility the DBSA slowly built up in recent years has been attributed largely to his leadership.

La Grange, who assumed responsibility as acting CE yesterday, is regarded as being of Brand's mould.

While at the SA Reserve Bank he was involved in establishing the DBSA and managing the secretariat responsible for SA's debt rescheduling in 1985 and 1986. He then joined the DBSA.

NBS Trust nets 25%

58

B Day 9/1/92

SHERIDAN CONNOLLY

NORWICH Life's NBS Unit Trust remained fully invested for the year to end December with an average 25,07% total return.

This compared with the 26,5% jump in the all-share index for the year. Norwich NBS Unit Trust spokesman John Bowman said that despite a dismal performance on the JSE in the closing weeks of the fourth quarter, the overall quarterly figures were excellent.

The market value of the fund stands at R23m. The fund decreased its liquidity to 6,5% from 13,2% for the fourth quarter.

It declared an income distribution of 8,77c a unit for the six month to end September. The fund had a 56% weighting in mining shares and, despite a disappointing overall gold share price trend, most of the fund's mining shares performed well, Bowman said.

Its top five holdings at year-end were Absa, Anglos, De Beers, ICH, and Richemont. It added Anamint, Malbak, Mid Wits, and PP Rust to its interests and those in Interleisure, Lebowa, and Sappi grew.

Guardbank Growth Fund provides total return of 33%

(53) Biday 7/1/92

SEAN VAN ZYL

THE Liberty Life group's general equity unit trust, Guardbank Growth Fund, achieved a total return of 33% for the 12months ended December compared with the all-share index gain of 26,5%.

Guardbank's two specialist unit trusts, Guardbank Resources Fund and Income Fund, disclosed total returns of 22% and 17,6% respectively.

Liberty Asset Management director Dave Galembo said the general equity fund's strong performance largely resulted from its exposure to the mining financial and industrial sectors. The fund's performance was also backed by selective buying of blue-chip stocks of which the fund's top investments include the Liberty Group, SAB, Richemont, Rembrandt, Adcock, De Beers, Wooltru, Sasol, Anamint and Gencor.

The Growth Fund made additional purchases in Kloof, Gencor and Liberty Life during the last quarter of the year.

The fund's total assets at December, based on market value, climbed by 5% to R1,38bn (September R1,31bn) on the previous quarter while its liquidity dropped marginally to 19,8% from 22,5%.

The Growth Fund declared an income distribution of 55,4c a unit for the six months to December, bringing the year's total income distribution to 118c a unit.

The Resources Fund's total assets at market value dropped to R53,8m from R54,8m for the last quarter. Faced with difficult trading conditions, as a result of volatile international metal and commodity prices, he felt the fund's total return of 22% for the year was satisfactory. Its liquidity dropped to 17,8% from 24,3% for the last quarter while its holdings in Kloof, Rusplats and Northam were topped up.

The Resource Fund boosted its yearly distribution a unit to 7,7c a share, of which the last six months came to 3,7c a unit.

The Guardbank Income Fund's total assets climbed by 27% to R45,4m from R35,8m for the fourth quarter with liquidity down to 19,5% from 26,5%. Galembo said the fund's return, including income reinvestment, outperformed all of the JSE bond indices. The all-bond index rose by 14,2% during the 12-months. The fund's total distribution for the year amounted to 18,4c a unit of which 9,1c a unit was declared for the six months ended December.

Although all indicators pointed to a drop in interest rates in 1992, Galembo expected the decline would be moderate as a result of the authorities' tight monetary policy.

While the equity market looked expensive, Galembo maintained a bullish view of share prices in the long-term: "The market is anticipating renewed economic growth for the 1990s."

However, Galembo thought renewed growth in 1992 would be moderate, but noted a shortage of quality scrip combined with new institutional money coming to the market would create further upward pressure on share prices in 1992.

Unit trusts provide safe hedge against inflation

B/Day 9/1/92 58

LINDA ENSOR

CAPE TOWN — Investments in the R11,4bn unit trust industry provided the man in the street with a safe hedge against inflation last year — provided he avoided most gold, mining, high income and gilt funds.

The market value of all unit trust assets rose 51% to R11,4bn last year from R7,57bn in 1990, Pretoria University Graduate School of Management professor Hugo Lambrechts said yesterday.

And while the total number of unit holders has not been finalised, considerable growth is expected over 1990's figure of 735 405.

Galloping industrial shares pulled the industrial index to a high of 42,35% last year compared with 1990's 33,15% and ensured handsome returns for investors in the industrial funds which, on a yearly repurchase-to-repurchase basis, have generated returns of 44,59% (Sanlam Industrial Fund) and 42,51% (Old Mutual Industrial Fund).

Lambrechts' survey of returns released yesterday showed that even a few general equity funds managed to achieve returns of over 40% well in excess of the 31,02% rise in the all share index.

Sanlam Dividend Trust (44,69% on a repurchase-to-repurchase basis), Southern Equity (41,58%) and Syfrets Growth Fund (41,12%) were the top three among the general funds. Thirteen other general trusts trotted along in the 30-40% band, while only three trusts — the CU Growth Fund (formerly Allegro, 23,38%), Fedgro (26,87%) and Norwich NBS (24,65%) — meandered behind in the 20s.

Syfrets Growth Fund with a return of 31,42% is the best performing general unit trust on a three year term while Old Mutual Investors' takes top spot in the five-year (21,59%), seven-year (29,29%) and 10-year (25,77%) categories. Guardbank Growth Fund takes the honours over a 15-year term with 29,29%, the survey showed.

Most portfolio managers do not believe industrial shares have the potential for much further growth this year and have their eye on mining shares as the generator of good returns. Their view is based on the expectation that an upturn in western economies will stimulate demand for SA minerals and commodities.

However, they believe returns as high as 40% cannot be expected.

Last year most mining funds just kept pace with or lagged seriously behind the inflation rate. The two exceptions were the UAL Mining & Resources Fund, which achieved a 24,46% return, and Guardbank Resources with 20,38%. This compared with the rise in the Mining Producers' Index of 17,13% and the Mining Financial Index of 23,58%.

The two gold funds turned in negative returns while the high income and gilt funds either did slightly better than the inflation rate or lagged behind it. Standard Bank Extra Income Fund was the best performing high income fund with a yearly return of 19,7% on a repurchase-to-repurchase basis.

UNIT TRUST PERFORMANCES TO DECEMBER 1991

UNIT TRUST & INDICES	1 YR(R-R)	1 YR(S-R)	3 YRS	5 YRS	7 YRS	10 YRS	15 YRS
GENERAL EQUITY FUNDS							
All Share Index	31,02	31,02	24,56	16,24	24,72	23,28	27,84
BOE Growth	36,37	26,84	—	—	—	—	—
CU Growth (Allegro)	23,38	16,58	—	—	—	—	—
Fedgro	26,87	18,17	—	—	—	—	—
Guardbank Growth	32,34	23,51	25,33	20,82	26,17	24,59	29,29
Metfund	37,25	27,87	21,60	—	—	—	—
Metlife	—	—	—	—	—	—	—
Momentum	37,57	28,63	27,44	—	—	—	—
NBS Hallmark	30,47	21,28	22,54	—	—	—	—
Norwich NBS	24,65	15,88	18,48	—	—	—	—
Old Mutual Investors'	36,77	27,06	25,78	21,59	29,29	25,77	28,89
Old Mutual Top Companies	—	—	—	—	—	—	—
Safegro	30,98	23,18	—	—	—	—	—
Sage Fund	36,64	27,66	24,75	19,75	24,97	22,81	26,46
Sanlam Index Trust	30,60	21,88	25,59	19,14	25,86	22,91	26,26
Sanlam Dividend Trust	44,69	35,07	24,55	18,81	21,72	18,21	22,63
Sanlam Trust	33,58	24,78	25,62	18,39	23,11	21,38	25,11
Senbank General Trust	—	—	—	—	—	—	—
Southern Equity	41,58	32,17	22,58	—	—	—	—
Standard Bank Mutual	30,88	22,70	24,56	19,67	24,85	22,12	25,46
Syfrets Growth Fund	41,12	32,00	31,42	—	—	—	—
Syfrets	—	—	—	—	—	—	—
UAL Unit Trust	30,02	21,43	26,01	17,20	23,57	21,76	26,05
Volkskas	—	—	—	—	—	—	—

Japie Jacobs' report expected soon

B/Day 9/1/92

LINDA ENSOR

CAPE TOWN — The long-awaited report on the levelling of the playing fields between banks, building societies and life offices was being finalised, the Finance Minister's special advisor Japie Jacobs said yesterday.

The committee investigating the flow of funds between financial institutions had made policy decisions after consulting the financial services sector, and the report was being written up, he said.

It was likely that Jacobs' report would be submitted to Finance Minister Barend du Plessis before this year's Budget was presented.

Jacobs would not be drawn on the contents of the report except to say that it would not result in a radical restructuring of the sector. He said the committee had looked at the question of levelling the playing fields from a perspective that went beyond taxation. (58)

The committee had also looked at how more information could be made available to enable the public to make informed investment decisions.

"It is not our intention to merely introduce tax changes," Jacobs said.

Development Bank needs further R1bn

B|Day 10|1|92 (58)

LESLEY LAMBERT

THE Development Bank of Southern Africa (DBSA) needed an extra R1bn and planned to raise part of it on foreign capital markets this year, former DBSA chairman and CE Simon Brand said yesterday.

Speaking from hospital after being forced by a sudden deterioration in his health to relinquish his tasks at the DBSA, Brand said he was confident more foreign funding would soon become available to SA development agencies and institutions.

SA borrowers' access to international capital markets had been renewed, and it appeared likely that concessionary financial assistance from foreign funding institutions would soon become available.

"My impression is that multilateral institutions like the World Bank and the bilateral development assistance agencies of individual countries are keen to get involved in SA," he said.

This, coupled with additional foreign commercial funding, would enable SA development agencies to make greater progress in their efforts to address SA's pressing socio-economic needs. Evidence that something concrete was being done to address the backlogs of apartheid would help resolve the violent conflict in SA.

The process of redistribution could be sped up if government agreed to formulate the national Budget in consultation with other major participants in the negotiation process.

While he believed government wanted to continue using the Budget as one means of redistributing wealth this year, Brand said strong demands from the business sector and other interest groups might water down attempts to do so.

Brand was confident SA would be able to negotiate widely acceptable political and economic settlements.

"Those who are not involved in the process now will realise that they will be left behind if they do not join in.

"On the economic side, there is tremendous potential to meet realistic expectations, provided that future leaders are sensible in their efforts to meet these expectations and do not try to buy public support by making extravagant promises which are economically unviable. Although private investors are holding back, SA's access to foreign funding is being renewed. When the major institutions such as the World Bank become involved, the private sector will follow, provided ... we are able to resolve the violent conflict."

RABIE FM 10|1|92

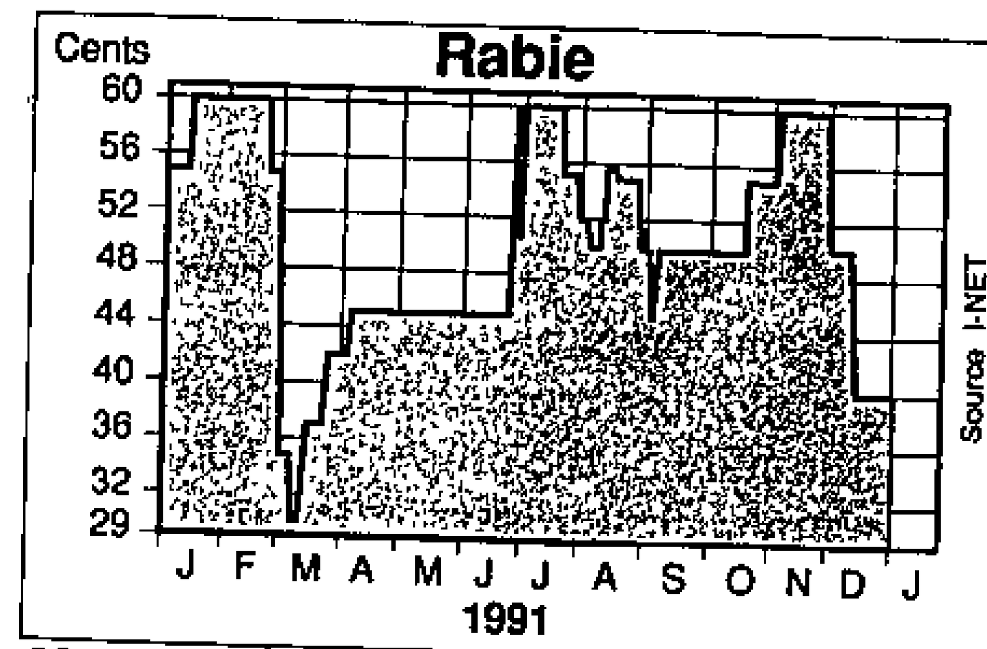
Changing direction

Activities: *Developer of residential and industrial property.*
Control: *Directors 67,5%.* (58)
Chairman: *J S Rabie; MD: L H Cohen.*
Capital structure: *19,4m ords. Market capitalisation: R7,7m.*
Share market: *Price: 40c. 12-month high, 60c; low, 30c. Trading volume last quarter, 51 800 shares.*

Year to June 30	'88	'89	'90	'91
ST debt (Rm)	0,05	—	0,7	12,8
LT debt (Rm)	0,24	8,2	0,3	3,8
Debt:equity ratio	n/a	n/a	n/a	2,5
Shareholders' interest	0,3	0,3	0,6	0,4
Int & leasing cover	36	16	5,4	0,4
Return on cap (%)	44	24	16	1,6
Turnover (Rm)	100	248	332	273
Pre-int profit (Rm)	5,5	9,9	4,7	0,5
Pre-int margin (%)	n/a	n/a	n/a	n/a
Earnings (c)	33,4	37,1	20,1	(2,1)
Dividends (c)	13	15	—	—
Net worth (c)	21	64	98	60

Unrest countrywide has taken its toll on companies, such as Rabie, in black property development. In the 1991 year, Rabie lost 2,1c a share. There was also a charge below

Continue →



FM 10|1|92 (58)

the line, because the Natal operations closed as a result of the violence. This cost the company R7m.

Sales to blacks formed 70% of group turnover until recently. Because of the feuding, and bond and rent boycotts in the townships, lending by institutions for development in the townships has been severely curtailed. It has brought township home building almost to a standstill and Rabie has substantially reduced its exposure to this market.

Its activities are now confined to its original business of designing, planning, co-ordinating and marketing exclusive projects in prime areas. But this came too late to stop the deterioration in results and the posting of the R7,4m loss for the 1991 year.

As could be expected, the effect on cash flow was a net deficit of R8m. It was funded by a R4,9m reduction in cash resources and a R3,1m increase in long-term borrowings.

The debt:equity ratio has also deteriorated. However, R8,9m of short-term finance was borrowed to finance prestige developments that have enjoyed a high degree of success. An example is the R100m, 150-unit Dolphin Beach project in Table Bay. It was 80% sold before building started.

In 1991, Rabie's 40% of Kwikspace Holdings (60% held by Murray & Roberts), comprising CI Park Homes, Portacamp and Zozo, made a significant contribution to operating income. These operations provide pre-built accommodation for less than R10 000.

Rabie is therefore well placed to be involved in low-price housing plans for government and private housing schemes. Rabie's black housing activities will be confined to this low-cost area in the short term.

Kwikspace is concentrating on exports of prefab units to neighbouring states and expects good profit from this in 1992.

Additional borrowings will increase interest payments materially. Nevertheless, chairman John Rabie is on record as saying that the company will return to profit during this financial year. In what is proving to be another difficult period, it will be a commendable performance if this is achieved.

Though the price is well down, there is no need to rush to accumulate shares at this level.

Gerald Hirshon

 FM 10/1/92 (58)

AVF

FM 10/1/92 (58)

Problem child

Anglovaal's expansion into the life assurance sector has so far been a bumpy ride, as shown in the AVF Group's annual results for the

Activities: *Investment holding company with interests in life assurance and financial services.*
Control: *Anglovaal (59%).*
Chairman: *Clive Menell.*
Capital structure: *98,7m ords. Market capitalisation: R172,7m.*
Share market: *Price: 175c. Yields: 4,8% on dividend. 12-month high, 280c; low, 175c. Trading volume last quarter, 1 161 652 shares.*

Year to June 30	‡'90	†'91
Pre-tax profit (Rm)	6,6	6,6
Attributable earnings (Rm)	18,6	(16,9)
Total shareholders funds (Rm)	62,3	139,6
Net worth (c)	86,6	141,4

† 14 month period.
‡ 13 months to April 30.

14-month period to June. What the directors saw as a potentially good acquisition of the high-performing AA Life in May 1990 has not lived up to expectations.

AA Life, the 95%-owned subsidiary of Avins of which AVF in turn owns 86%, is of course at the heart of the group's problems. The full impact of AA Life's high lapse rate and uninspiring investment management (which has subsequently been handed over to AVF's 35% associate company, Board of Executors) is hard to fathom from the limited information disclosed in the financial statements.

But an obvious effect is seen in the R40m provision to bring AA Life's life funds in line with actuarial liabilities.

Consequently, shareholders' earnings show a loss close to R17m, and the respectable retained surplus of R2,1m posted in April 1990 is now an accumulated loss of R21,8m.

EPS have not been calculated for the period because the directors say it was not possible to allocate the special provision of R40m between current and prior periods. Both AVF and Avins followed AA Life in passing their dividends.

The question is what AVF might do with its problem child. Measures have been taken, like closing the telesales division, to pull the company into line. If these don't work, Anglovaal might have to consider selling AA Life, if a decent price can be fetched. Alternatively, it could be merged with the more stable and profitable Crusader Life.

However, director David Barber says "those options are not part of the plan at the moment."

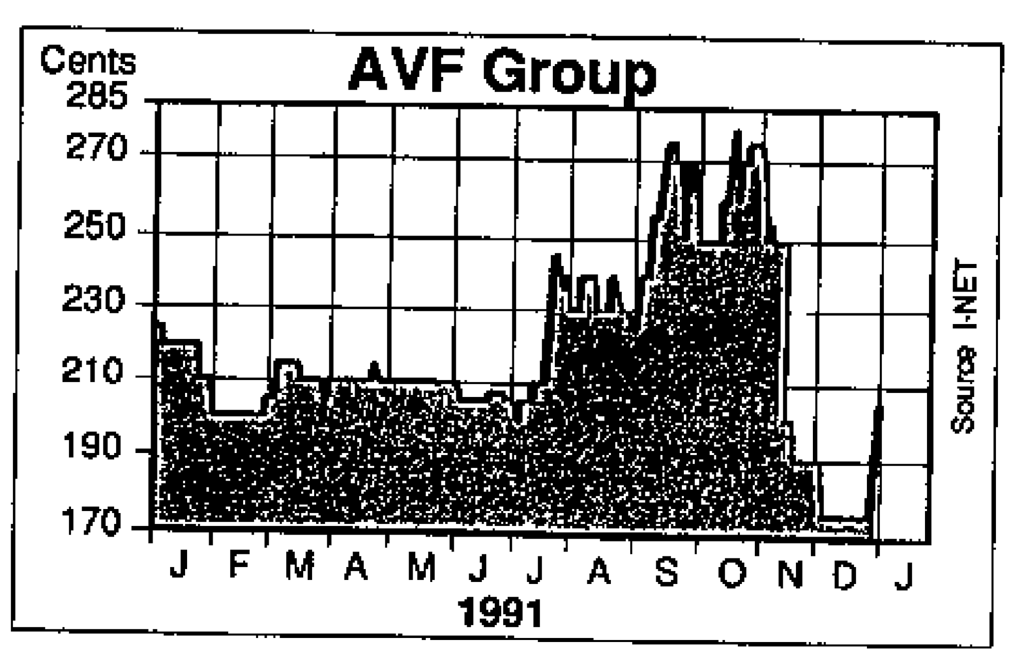
The performance of Crusader Life, which showed a net taxed surplus of R6m, is satisfactory, but general unease in the market pulled down its share price more or less in line with the group. The Board of Executors should continue to be a good investment.

The market, it seems, is the harshest critic of the poor performance by unlisted AA Life. This has helped to drag down AVF's price from a high of 280c in late October to the present 175c.

Yet some analysts feel the group has taken a one-off knock. With the necessary rationalisation and restructuring in place, as well as new blood in the executive, it could be poised to show better results this year. If earnings growth of around 20% could be achieved, they feel, the share would be favourably rerated.

With a rights issue coming up — AVF plans to raise about R43m to follow its rights in the offer of about R46m by subsidiary Avins, which in turn is following the rights offers of AA Life (R26m) and Crusader Life (R20m) — additional capital will be generated.

The sector has shown good growth. AVF may not catch up with other life assurers rapidly but this might be the time to consider getting in at the bottom. *Shaun Harris*



BLACK BUSINESS

FM 10/1/92 (58)

An insurance phoenix

Fabcos (Foundation for African Business & Consumer Services) is preparing to launch a major general insurer, backed by a bank and two insurance groups, to focus on the black market.

The vehicle will be BPI (Business & Personal Insurance), whose licence was inherited from the demise of Quorum Insurance.

The deal is being orchestrated by Fabcos and the probable shareholder line-up includes 51% of black capital, represented by Fabcos and Future Bank, with Eagle and Aegis Insurance holding minority stakes and management contracts.

Both insurers have strong black market connections and, between them, handle most of the black taxi insurance business. Future Bank confirms talks are taking place but emphasises no deal has yet been struck.

Also in the sandwich is BCE, an underwriting manager specialising in construction and electronics, which recently switched allegiance from its treaty with Fedgen (see page 28) to align itself with BPI.

Before the arrangement is finalised, it will have to be approved by the Financial Services Board, which has been kept abreast of developments but will not comment now.

Leading insurance brokers have been probing the BPI background. Price Forbes, in a newsletter to clients last month, said it would comment fully on BPI later. It then told the *FM* it has not been able to obtain financial information from BPI "because the shareholdings were being finalised."

The brokers feared the emergent company might lack the necessary management skills, even though capital backing was available. If Eagle and Aegis sign up as managers that doubt will be removed. Aegis CEO Brian Seach says talks are at a "positive" stage.

Both Eagle and Aegis are UK-controlled by shareholders who want to support the development of black-owned financial institutions. That also applies to Future Bank, a spin-off from First National Bank subsidiary Wesbank, and Fabcos. But BPI executives emphasise the arrangements have not been finalised — including the shareholdings — and that the issue is still "sensitive."

According to David Taylor, CE of BCE, which will operate under treaty with the new company, the tentative name is The New SA Insurance Co.

BCE brings with it about R20m of net premium income. Taylor says his company's contribution will be mainly in the specialised areas of construction and electronic underwriting. Black home-owners and business people have expressed a need, he says, for an insurer which belongs to their community.

It is understood that Fabcos, while bringing in "white" skills initially, has pledged that shareholdings will not be diluted when the technical capabilities of black managers and executives have been developed. Seach confirms this.

Taylor says construction contracts offer a huge opportunity for the new company. "Just because homes may be smaller, it does not mean they don't need insurance." ■

FIRST NATIONAL BANK FM 10|1|92 (58)

Regaining its rightful place

Activities: *Banking and related financial services.*
Control: *AAC/De Beers (29,9%); Southern Life (25,7%).*
Chairman: *B E Hersov; MD: B J Swart.*
Capital structure: *72,7m ords. Market capitalisation: R3,93bn.*
Share market: *Price: 5 400c. Yields: 3,2% on dividend; 9,8% on earnings; p:e ratio, 10,2; cover, 3,0. 12-month high, 5 400c; low, 2 825c. Trading volume last quarter, 212 000 shares.*

Year to Sept 30	'88	'89	'90	'91
Total assets (Rbn) ...	28,2	30,6	30,3	36,6
Advances (Rm)	21,1	23,1	23,2	29,1
Deposits (Rbn)	25,1	27,1	26,6	32,2
Op profit (Rm)	452,1	595,1	832,7	908,5
Bad debt prov (Rm)	124,5	181,6	294,3	262,9
Attrib profit (Rm)	206,8	274,3	329,8	385,1
Return on assets (%) .	0,73	0,90	1,09	1,05
Return on equity (%) ..	20,3	22,7	23,1	22,8
Earnings (c)	285	377	453	529
Dividends (c)	112,5	130	150	175
Net worth (c)	1 613	1 983	2 438	3 391

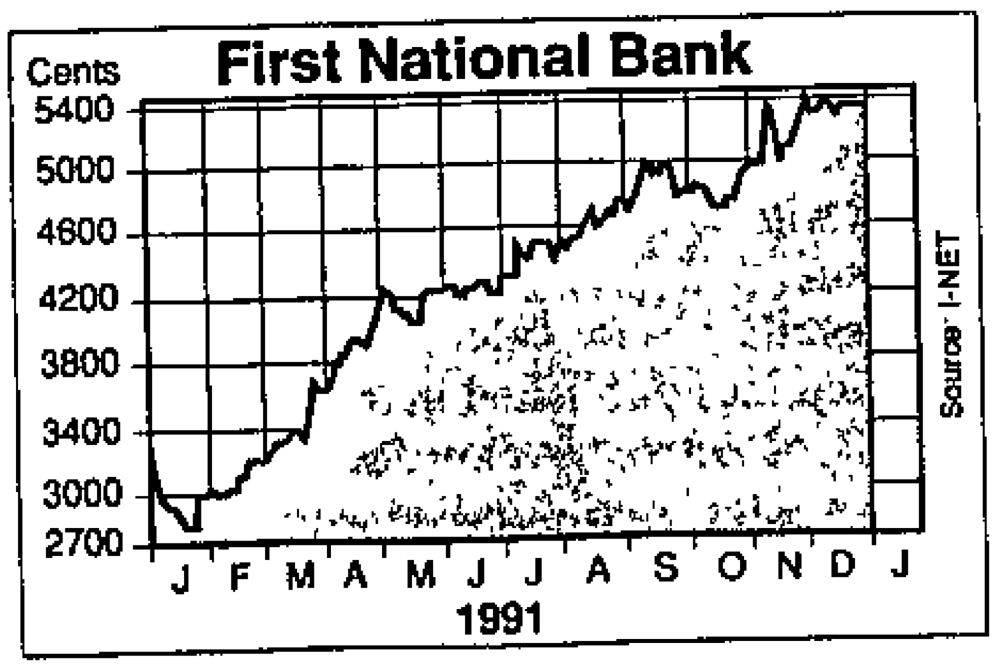
Perhaps the most salutary lesson to be learnt from the virtual doubling of the First National Bank (FNB) share price over the past year is that the market is not always right.

From a corporate viewpoint, nothing much changed during this period that could remotely justify the rerating. What has happened, however, is that the market has more or less been forced to accept that its perceptions about where the group was heading were incorrect.

In retrospect, FNB's image has been under pressure for years for various reasons. In the mid-Eighties when its computer network was dumped and replaced with the IBM-based Hogan system, there was wide scepticism over the cost and efficacy of the change.

To be fair, there were probably times when even the bank wondered whether Hogan would ever be brought to heel. But it was, and few would now question the benefits which have been derived and, more importantly, will still be derived as the full potential of the system is developed.

Another decision which unsettled investors was the clamp put on new business growth after Barry Swart became MD. This



FNB's Swart ... *quality rather than quantity*

reflected in a virtually static total asset base between 1988 and 1990 and resulted, among other things, in FNB being eclipsed in size not only by Standard Bank — once (a long time ago) its only real competitor — but also by Nedcor, which launched a major drive for new business at about the same time that FNB withdrew from the race.

Despite last year's leap forward, FNB's balance sheet in September 1991 was R5bn smaller than that of Nedcor, whereas two years earlier it was still R1bn larger despite Nedcor's acquisition of the Perm.

However, as with the Hogan decision, subsequent events have proved the wisdom of concentrating on quality rather than quantity of business.

For one thing, shareholders have not suffered. Adequate earnings growth was achieved simply by improving returns on the business which the group already had on its books. Return on assets rose from a mediocre 0,73% in 1988 to almost 1,1%, materially better than Nedcor's 0,83%.

For another, FNB has emerged from this period of consolidation with one of the strongest balance sheets in the business, with a DTI-based capital ratio already at the 8% level which will be required from the beginning of 1995.

In the context of preparing for a renewed and sustainable growth phase, something else that should not be overlooked is the new headquarters complex being built in Johannesburg. BankCity, due to be completed in 1995, will consolidate operations now spread among 28 buildings. Once completed, it should improve efficiency and help to contain operating cost escalations.

In the short term, FNB is well-positioned for what is generally hoped will be a reduction in the interest rate pattern later this year.

This is normally a mixed blessing for banks. Cheaper credit invariably boosts business. But, especially in the retail market, lending rates often drop faster than deposit rates and this can put a severe squeeze on margins.

FNB has taken steps to protect itself by materially shortening and restructuring its deposit book to the extent that 44% (1990: 30%) now falls in the withdrawable-on-demand category and so will not cause any problems as interest rates come down.

Something else that could benefit this year's results is that there might be a further fall in bad debt provisions — or, at worst, a limited increase. Though last year's provisions were R31m (11%) down on 1990, which raised a few eyebrows given the present state of the economy, 1991's provisions still seem conservatively based given that they amounted to 0,90% of total year-end advances, a figure that compares favourably with, for example, Nedcor's 0,86% for the same accounting period.

What this means is that the previous year's 1,27% provision may have been an overkill, in which case it could well be that FNB has seen the worst in terms of these provisions and their negative impact on group profits.

Even though an upturn in the economy will probably come too late to have any material effect on new business opportunities this year, there should be further profit benefits to flow through from last year's expansion of the lending base. This should, as in the past, enable the group to at least maintain earnings in real terms.

This outlook is already discounted in the R54 share price, yielding 3,2% on dividends, indicating that FNB has regained its rightful place in the banking sector after an extended period of neglect.

Brian Thompson

CRUSADER LIFE FM 10|1|92

Under a shadow (58)

Activities: *Life assurer.*
Control: *Anglovaal Insurance Holdings (60%).*
Chairman: *Don Rowand; MD: Bob Rowand.*
Capital structure: *19,7m ords. Market capitalisation: R39,4m.*
Share market: *Price: 200c. Yields: 9,4% on dividend; 9,4% on earnings; p:e ratio, 10,6; cover, 0,6. 12-month high, 280c; low, 190c. Trading volume last quarter, 606 201 shares.*

Year to June 30	‡'87	‡'88	‡'89	†'91
Total Assets (Rm) ...	56,4	85,1	97,6	135,9
Net premium inc (Rm)	32,1	41,5	57,0	118,6
Invest income (Rm) .	4,0	9,2	9,0	12,2
Dividends (c)	9,6	11,5	14,4	17,8*
Net worth (c)	107,4	107,4	114,0	120,3
Earnings (c)	14,0	11,5	14,4	17,8*

* Annualised.
† 18 months to June 30.
‡ 12 months to Dec 31.

Crusader Life's entry into the Anglovaal fold just over 18 months ago has brought mixed blessings. In the long run, the link will probably prove beneficial, bringing administrative cost savings, strong financial backing and access to the parent group's client base and other companies.

But being a 60%-owned subsidiary of Anglovaal Insurance Holdings (Avins) has so far not been plain sailing. As an independent company, Crusader Life's results show fairly consistent growth. Despite the distortions of financial statements covering an 18-month period, annualised figures show 36% growth in new business, an 84% increase in the life fund and, most important for a life assurance company, a 42% increase in the surplus.

Yet Crusader's share price has plunged

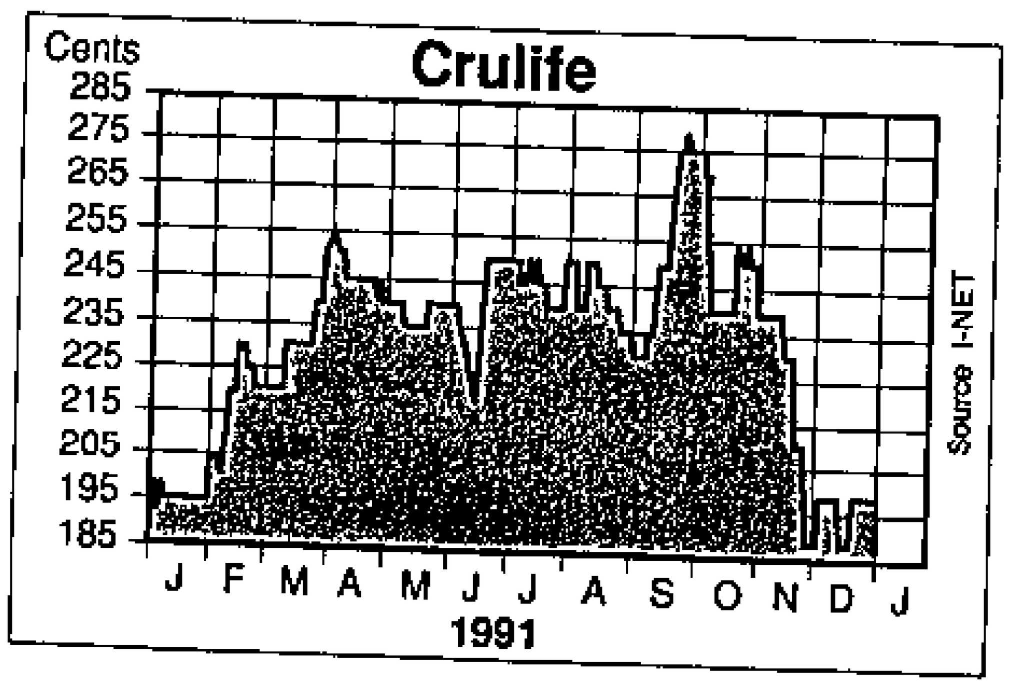
FM 10|1|92 (58)

rapidly from a 280c high in September to its current R2. Perhaps the best explanation is the similar drop shown in Avins's share price. With prospects for the company looking reasonable, the question now is whether Crusader's share price can move out of the shadow of Avins.

Shareholders will no doubt be pleased with attributable earnings of R6m, leading to a dividend payment this month of 9,5c, deferred to allow a bonus share scheme to be introduced. Shareholders can elect to receive all or part of their entitled cash dividend as fully paid bonus shares, after which the final dividend will be declared. An amount of R4m has been provided for the estimated cash portion of the total dividend.

While the directors point out that dividend increases have been kept at between 20% and 25% since 1984, growth in new business is clearly putting pressure on capital. To help resolve this problem, Crusader Life plans to raise about R20m through a rights offer.

This is being followed by both Avins and the ultimate holding group AVF, while troubled stablemate AA Life hopes to raise about R26m in a separate rights offer.



Administration expenses, up three-fifths over the 18-month period to R29m, are worrying. But executive director Louis Prinsloo says that, on an annualised basis, the increase amounts to only 6,7%, a benefit of the joint administration offered by Avins.

With additional capital being raised, the share could be worth following, especially as its present low price probably has more to do with the image of other components of the group than the company's own performance.

Shaun Harris

NEW KLEINFONTEIN

Beating the cycle

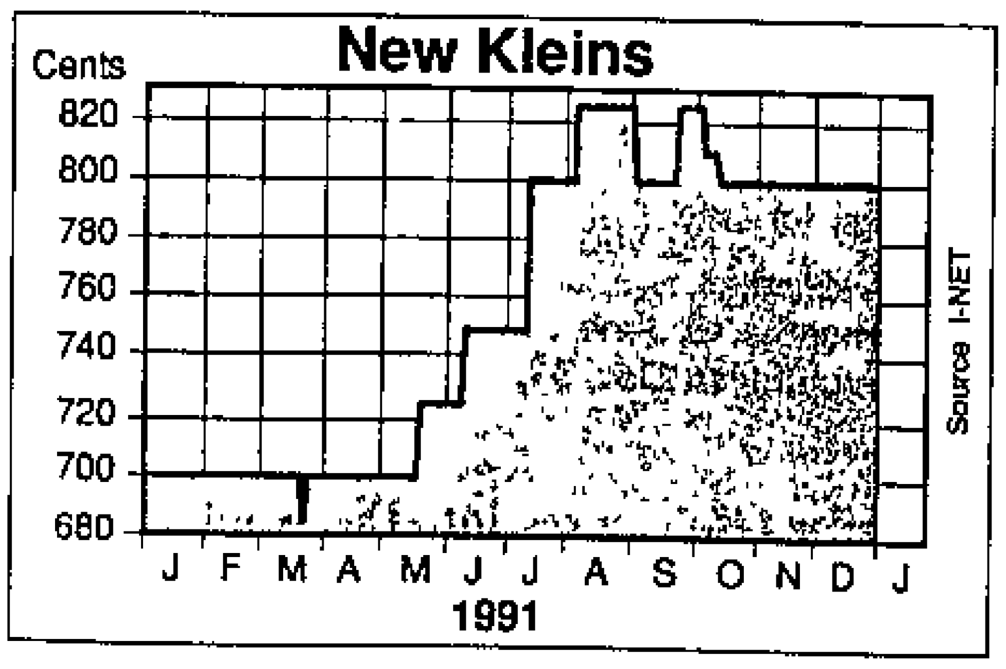
Activities: *Property development and investment.*
Control: *AFC Investments 62,9%.*
Chairman: *J W Mackenzie; MD: G Fischer.*
Capital structure: *2,01m ords. Market capitalisation: R16,1m.*
Share market: *Price: 800c. Yields: 7,8% on dividend; 21,8% on earnings; p:e ratio, 4,6; cover, 2,8. 12-month high, 825c; low, 685c. Trading volume last quarter, 11 000 shares.*

Year to June	'88	'89	'90	'91
Return on cap (%)	9,1	9,3	17,5	18,8
Turnover (Rm)	3,8	5,0	8,9	8,8
Pre-tax profit (Rm)	2,2	3,7	6,0	6,0
Earnings (c)	68,4	101,6	165,1	174,5
Dividends (c)	28	39	50	62
Net worth (c)	661	747	861	1 007

Chairman John Mackenzie says land sales in industrial townships reflected economic recession and were lower, though the Woodmead Crescent and Kleinfontein Lake office parks stood out against the trend.

He says property is a lagging economic indicator; even if the business cycle in general bottomed by the third quarter of 1991, the property cycle is likely to bottom only six to nine months later. But industrial property should be highly responsive to economic recovery; so prospects for the group are relatively favourable.

This year, says Mackenzie, New Klein will embark on projects which have already been planned and will be substantially prelet. It will also look for strategic acquisitions for short-to-medium-term development. Absence of borrowings will ensure that holding costs are no drain and profits should at least be maintained through what is likely to be the worst part of the downturn for property.



New projects mentioned in the directors' report include an extension to Kleinfontein Lake Office Park. Retail rights have been granted on a site next to Benoni Hyperama, Kleinfontein Lake Extension 1, allowing 22 500 m² of retail and related uses.

The company still holds 360 000 shares in Ergo. No monthly income was derived from residual mining interests, but a slimes dam was sold for R1,2m, which was treated as an extraordinary receipt.

Steady growth in earnings, dividends and (probably understated) NAV during recession testifies to the sound (if conservative) management and the policy of staying ungeared. (But remember, while strong liquidity will permit new acquisitions to be financed without incurring holding costs, they will erode existing net interest received of almost R1m.) The share is difficult to pick up in any quantity but looks good value both intrinsically and relative to the rest of the property section.

Michael Coulson

FM 10/1/92 (58)

INSURANCE FM 10/1/92

Fedgen's nuptials (58)

Federated General (Fedgen) and Aegis Insurance have broken off their merger talks. But Aegis MD Brian Seach confirms he is still interested in growth opportunities and Fedgen CEO Ronald Carter says he is still interested in a suitable marriage.

Carter, brought in by Fedsure on a five-year contract to turn around the troubled short-term arm of the Fedsure group, is emphatic that Fedgen will not be gobbled up by acquisition. It's a strong company, he says, with sound solvency margins. It is, like most of the medium-sized players in the league, interested in a marriage — "perhaps 40-40 plus 20% to another shareholder" — if that leads to economies and a better expense ratio. Meanwhile, he considers, those goals may be achieved through updating systems.

Fedgen's traditional strength has been in the construction business and the provision of compensation and other benefits for building workers. Though now much more general in character, it retains its original industry links.

But recently, Fedgen severed ties with underwriting managers BCE (see page 41), which had an underwriting management contract under which it wrote construction and engineering business for Fedgen. Carter says the BCE severance, involving R20m of net premium income, had no influence on the company's negotiations with Aegis, which Seach also confirms. BCE has now found an umbrella with Business & Personal Insurance and, if plans work out, will be concentrating in the black market.

Expense ratios may be where the merger talks foundered. Aegis had a net ratio last year of 9,5%. Fedgen's exceeded 20%. Had a merger taken place, the potential benefits would have flowed only if there were ruthless pruning of costs. Seach says overseas parents, themselves bruised by a long soft market, want quick improvements in the results of their subsidiaries. The time required to bring through the ultimate benefits of a merger was simply too long, Seach adds. ■

BANKING

Africa's best

A survey of African banks by *The Banker* shows the top six, south of the Sahara, are South African. In first place, in terms of both capital (US$1bn) and assets ($18,2bn), is Amalgamated Banks of SA (Absa), established last year after a merger of Volkskas, UBS Holdings and Allied.

Absa is followed by:

- Standard Bank Investment Corp, $871m and $16,6bn;
- Nedcor, $647m, $13,1bn;
- First National Bank $589m, $12,4bn;
- Bankorp, $450m, $8,9bn; and
- NBS Holdings, which controls Natal Building Society, $138m, $2,7bn.

Seventh on the list is Ghana Commercial Bank, with $100m capital and $672m assets.

Three more SA banks appear among the top 100 ranked by capital: Boland 14th with $53m, Investec 16th with $48m, and Rand Merchant Bank 23rd with $37m. In terms of assets, they are 13th ($1,2bn), 17th ($1,1bn) and 21st ($702m) respectively.

Rankings are based on latest available financial statements.

The Banker records that the SA banks make up almost three-quarters of banking capital ($3,9bn) and assets ($74,9bn), in US dollar terms, for the region. It says they "are well positioned for growth following any integration of the continent's southern economies."

The country with the greatest number of banks to appear on the list is Nigeria, where, "since the late 1980s," says *The Banker*, "deregulation has produced an explosive growth in the number of banks . . ." But combined capital of the 26 banks amounts to only $467m and assets $7,5bn.

Of the banks surveyed, the highest capital: assets ratios were those of: Gabon's Banque Nationale de Credit Rural, 63,47%; and Zambia's Lima Bank, 57,52%.

The SA bank with the highest ratio is Absa at 5,72%. The latest available financial statement, to March 1991, is a consolidation of the accounts of its components, so no comparison is made with previous years. Capital:asset ratios of other SA bank groups in order of ranking are:

- SBIC with 5,24% (position unchanged from the previous year);
- RMB 5,24% (6th the previous year);
- Bankorp 5,08% (8);
- NBS 5,05% (3);
- Nedcor 4,93% (4);
- FNB 4,75% (5);
- Investec 4,56% (1); and
- Boland 4,33% (7)

Greatest pre-tax profit growth was reported by FNB, 19,9% to $225m in the year ending September 1991. No figures are given for Absa, Investec or RMB. Of other SA banks:

- NBS's pre-tax profit rose 14,2% to $31m, year ending March 1991;
- Boland 14,1% to $7m, March 1991;
- SBIC 10,3% to R240m, December 1990; and
- Nedcor 10,1% to $194m, September 1991.

No percentage growth is recorded for Bankorp, whose pre-tax profit was $30m.

If inflation is stripped out, the only bank to achieve real growth is FNB, at 4,3%.

The banks are also ranked in terms of profit to capital:

- FNB 41,4%;
- Nedcor 32,4%;
- SBIC 29,7%;
- NBS 24,4%;
- Boland 13,2%; and
- Bankorp 8,5%.

The greatest turnaround was at Bankorp, which reported a negative ratio of 48,5% the previous year. No figures are given for the remaining banks.

By return on assets, FNB is placed first at 1,81%, followed by:

- Nedcor 1,48%;
- SBIC 1,45%;
- NBS 1,12%;
- Absa 0,84%, and
- Boland 0,55%.

UBS Holdings' superior ROA was diluted by the merger with Volkskas and Allied, ranking the new Absa 5th among SA banks. A spokesman says the low ranking is partly due to a distortion from including profits of Allied and Volkskas for only six months of the financial year, but total assets. Absa measured its return on average assets at March 31 as 1,01%. It took weighted average assets of R31,9bn while *The Banker* did its calculations on the arithmetical average.

Figures for RMB and Investec are unavailable. ■

DISINTERMEDIATION

FM 10/1/92

Short-circuit

(58)

Two new debt markets were opened on January 3, with the announcement in the *Government Gazette* that the issuing of commercial paper (including debentures) and securitisation (the sale of a portfolio of financial assets) will fall outside the ambit of the Deposit-Taking Institutions (DTI) Act.

Now corporates will be able to raise funds from the public without the intermediation of a bank.

This follows lengthy discussions between the authorities and the banking sector which has been reluctant to see lenders and borrowers by-pass the banking system.

Only certain companies will be allowed to issue paper. Those which:

- ☐ Hold net assets of over R100m; or
- ☐ Have holding companies with assets of over R100m;
- ☐ Have the endorsement of a DTI to guarantee the company's obligations on the commercial paper; or
- ☐ Have the backing of a government guarantee.

The bank endorsement and net asset value figure of R100m will be reviewed in the future.

A company will be allowed to accept money from the public against debentures — an interest-bearing written acknowledgement of debt, issued for a period of 12 months or longer and renewable for a period of not less than 12 months — providing it complies with the Companies Act.

Debentures can only be issued for a fixed term but they may carry either a fixed or floating interest rate. Funds raised have to be assigned a specific purpose.

Banks have retained a firm hold on securitisation, which can be undertaken only through a DTI — though the DTI cannot own or control the special purpose vehicle through which securitisation has to take place. ■

COMPANIES

NBS Hallmark fund doubles value

ROBERT WICKS

THE NBS Hallmark Mutual Fund more than doubled in size in the past 12 months and at December 31 1991 its value stood at R31,1m as against R14,6m at the start of the year. BDay 10/1/92

In the year to December, NBS Hallmark achieved a total return of 31,5% as against an inflation rate of 15,5% and the "28,8% return on the JSE all share index".

The total return the fund has notched up since it was launched in August 1988 has been 23,7% a year, which fund manager Ken Burns describes as "a very creditable performance".

During the quarter, fund managers continued to increase the mining content of the portfolio, taking it from 23% at the end of June, to 26% at the end of September and to 30% at the end of December.

Consequently the industrial content and cash holdings in the portfolio have been slightly reduced. (58)

The fund's liquidity was reduced from a total of 26% to 22% with the sale during the quarter of the long-dated Eskom 168 stock.

Other portfolio changes were the sale of Suncrush and Berzack Bros holdings and a new investment made in Safmarine.

Commenting on the fund's investment strategy, Burns said NBS Hallmark continued to add to existing holdings across the board, with focus on the mining sector.

"We will use any opportunities of a weaker market to add to existing holdings, so long as we can find fundamental value in the stocks to be purchased," Burns said.

He added that fund managers would reduce liquidity to lower levels as and when the stock market was poised for a further phase of good growth.

R50m lift for Southern Life city centre (58)

KARIN FRANKEN

SOUTHERN Life is to spend R50m in a major facelift of its African Life Centre in Johannesburg.

Work on the Commissioner Street building will include a revamp of the shopping levels and the upgrading of the external facade of the office space.

Anglo American Property Services (Ampros) design and development director Fred Bihl said: "The building, which occupies a prime position in Johannesburg on the site of the original Carlton Hotel, was completed in mid-1966 and is ready for a revamp of this nature." B/Day 10/1/92

The electrical and airconditioning services, and the lift lobbies of the office tower will be revamped, with the elevators receiving upgrading. Work will start shortly and is due to be completed by the end of 1993.

The shopping element comprises 9 500m² on the ground, basement and mezzanine levels, with the office space measuring 17 500m² on the podium level and the 19th floor tower. B/Day 10/1/92

The revamp decision followed hard on the heels of the Southern Life Centre upgradement in Cape Town, which was regarded by Ampros as highly successful in attracting new tenants and as being a new asset for the Cape Town CBD area.

HOME LOAN RATES

FM 10/1/92

58

No free fall ahead

The money market started the new year on the same bullish note it closed the old. Expectations about a fall in Bank rate — the official rate at which the central bank lends money to banks — range from "later this month" to "before the Budget in March."

The rate on three-month BAs fell to 16,35% on January 3 from 16,4% throughout December, while the rate on 12-month CDs dropped from 16,8% on December 31 to 16,6% on January 3 where it remained at the start of this week.

The bond market, which was bearish for a considerable part of last year, is now in a happier mood and the mini bull run, which started in October, has not petered out. The benchmark Eskom 11%, which peaked at a closing 16,94% on October 22, fell from a 1991 close of 16,25% to 16,15% on January 3.

Home-owners are wondering whether the benefits will spill over into the mortgage loan market. Having endured high nominal interest rates for several years — they are now 18,95%-21,25% — borrowers are hoping a more relaxed time lies ahead.

Over the past 10 years, interest rates charged on home loans have changed direction sharply several times. From 9%-11% in 1981, they had moved to 18,25%-25% in April 1985, before plunging to 12,5% in 1986. By 1988, pressures in the financial market started a new upward spiral, pushing them to a high of 20,5%-22% by late 1989.

They have fallen slightly but the level has been boosted by the introduction of a tax on financial services introduced last year — a cost which banks have recovered from consumers.

In real terms, of course, the picture is somewhat different. Once the effect of inflation is removed from the figures, rates in 1991 averaged only 4,77%, says Absa's economic unit, down from 6,42% in 1990 and 4,86% in 1989. These figures are based on Absa's average nominal mortgage rate in those years — 20%, 20,75% and 19,5%.

For people who bought when the nominal rate was only 12,5%, however, the adjustment has been painful.

Home-buyers who raised mortgage loans over 30 years would have paid only R10,67 a month for each R1 000 borrowed — a monthly repayment of R1 067 for a R100 000 loan. At 20,25%, they will be paying R16,92 for each R1 000, a monthly repayment of R1 692 (though in practice the sum would be somewhat lower because outstanding debt would have been reduced).

Can they now expect some material relief? The answer is not much — and certainly not to start with.

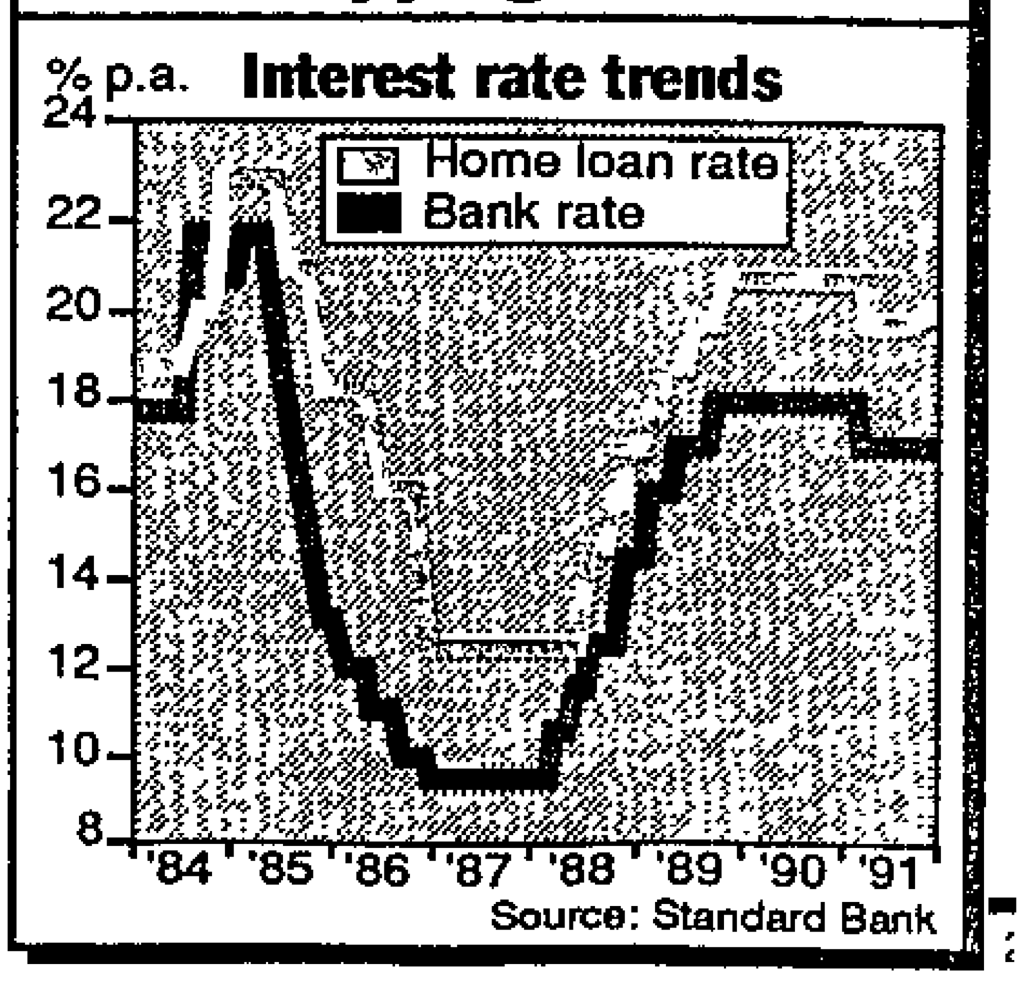
Though institutions will almost certainly take advantage of a fall in Bank rate, and a consequent fall in the pattern of interest rates and therefore funding costs, to reduce mortgage rates, they are unlikely to offer borrowers more than the expected one-percentage-point fall in Bank rate. On a 30-year loan this represents a saving of only 83c a month for every R1 000 borrowed.

A second one-percentage-point fall is expected later in the year but only the most optimistic expect a third fall. So by year's end borrowers will almost certainly be better off than now but the amount involved will be small.

There was a time when banks may have been prepared to cut their margins for a competitive edge in the market, as they did towards the end of 1986 and early 1987, but they are less likely to do this now, though margins are considerably better than during 1990.

"There are too many other worrying factors at work," says one banker. ■

Stepping down



Source: Standard Bank

Masterbond: 'Govt did not warn public'

STAR 11/1/92

(58)

BRENDAN TEMPLETON

IN A stunning revelation, a Government spokesman has admitted that the State knew that Masterbond, the collapsed billion-rand participation bond company, was probably operating illegally but did not act against it or warn the public because it feared it would "cause investor panic in the (participation bond) market".

And it has emerged that Masterbond particularly targeted pensioners in an attempt to get them to part with their life savings. The SA Association of Retired Persons (SAARP) in Cape Town was used by Masterbond to get its members to invest in the company.

A retired George businessman, Don McKenzie, is trying to get funds together to pay lawyers to represent the interests of small-time investors in the failed company.

Masterbond had about 88 companies in its empire which collapsed after funds dried up because of a fall-off in investor confidence.

Mr McKenzie is angry about what he believes is the State's failure to enforce its own laws and for not informing the public that Masterbond did not meet the requirements needed to take money from them. Masterbond advertised itself as a registered financial

TO PAGE 2

Bond deals

FROM PAGE 1

institution even though it was not one. It operated as a deposit-taking institution (DTI) — but was not registered as such.

Masterbond operated in a grey area of legality, claiming its business did not require it to register as a DTI, and relied on its company registration to do business.

Chief director, project services, in the Department of Finance David Venter said curators were focusing on securing the company's investments before looking at irregularities.

Mr McKenzie says the Government knew Masterbond was operating irregularly, but failed to act.

A source, who asked not to be named, said it was not the authorities who should be blamed, but the agents who urged people to invest in Masterbond.

Clearly South Africa needed a body to regulate the conduct of investment consultants, he added.

Now many of the 12 000 people who invested in the company's short-term participation bonds may lose their life savings.

SAARP spokesman George Hope said the association had hired a lawyer to look after members' interests.

It was not just glib-talking salemen who lured people into the scheme — respected financial companies and building societies also advised their customers to invest in Masterbond, Mr McKenzie says.

Mr Venter says the Government did take steps against Masterbond.

(58)

"I think there is more than sufficient evidence to show that the Registrar was involved with Masterbond and that negotiations were done and that, at one stage, the Attorney-General was asked to prosecute," he said.

Asked why the public was not warned that Masterbond was unregistered, he said the Government feared it could cause investor panic in the market.

"It is an enormous industry. If one company goes belly-up, you could get a run on participation bonds," he said.

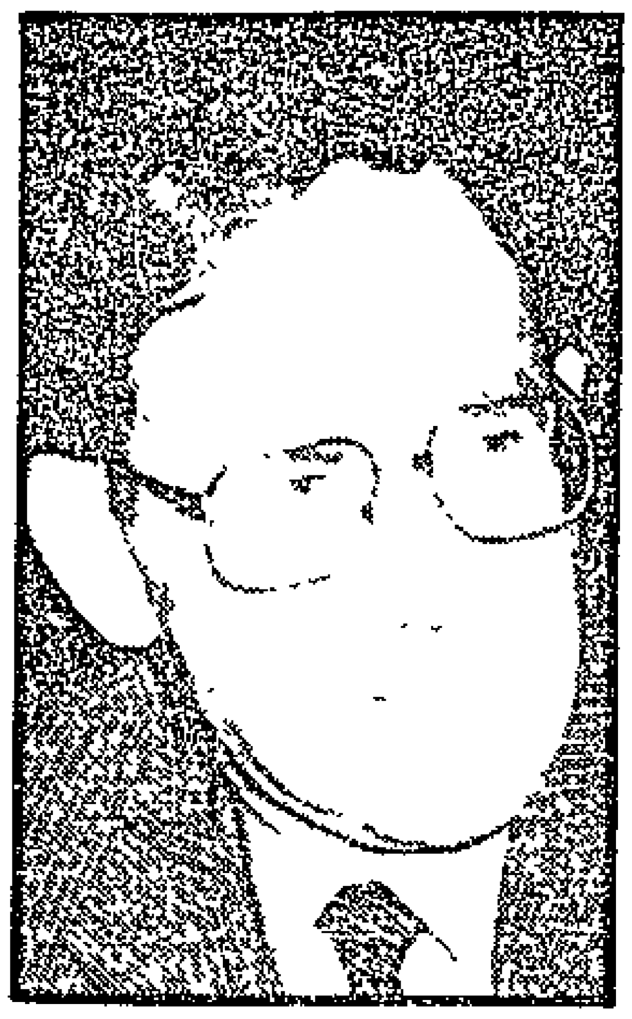
Mr McKenzie, and hundreds of other people who have written to him, are now unhappy because the Masterbond curators are keeping them in the dark on investigations into the company's assets.

He feels the small investors need lawyers to protect their interests when the Masterbond assets are carved up.

An account has been opened at the George branch of the Eastern Province Building Society. Its number is 92031400012 and is called the Masterbond Victims Trust Fund.

Mr McKenzie has asked victims to deposit money into the account, but only if they can afford it. He can be contacted at (0441) 707-695.

STAR 11/1/92



SIMON BRAND: Genius baffled by gadgetry

New Voortrekker Simon Brand wins ANC praise

S1Times(Buss) 12|1|92(58)

By ZILLA EFRAT

FEW people, especially those in the public service, have managed to command respect accross the South African business and political spectrum.

But one man who has is Simon Brand, 53, who this week relinquished his posts of chief executive and chairman of the Development Bank of Southern Africa (DBSA).

After receiving treatment for cancer in the past months, Dr Brand was taken to hospital this week after a sudden deterioration in his health.

But it did not deter him from an active week in which he received many phone calls and visitors.

DBSA was inundated with letters and calls of concern about Dr Brand's health, testimony to the high regard attributed to him by members of government, extra-parliamentary groups, business leaders and the international community.

Tito Mboweni, of the ANC's department of economic policy, says Dr Brand is representative of a new breed of Afrikaner intellectuals and technocrats.

"He had obviously broken with the past and was clearly part of the new Voortrekkers in economic policy. He is a true democrat and incisive development economist."

Dr Brand's contact with the ANC goes back about 15 years, long before such ties became fashionable.

Being economic adviser to presidents John Vorster, PW Botha and FW de Klerk never precluded him from forming warm relationships with extra-parliamentary parties.

Acting DBSA chief executive Andre la Grange says Dr Brand never followed a political line and has at times been critical of government.

His proposals for abandoning apartheid laws go back to the late 1970s when such calls were hardly acceptable. But because of his personal style, few people dislike Dr Brand.

Mr Mboweni says Dr Brand's main constraint has been the institutional framework in which he operated. However, this never detracted from his commitment to poverty alleviation.

Gadgets

Mr La Grange says Dr Brand's strengths lie in policy and strategy, as well as his personal skill as a listener and mediator.

Dr Brand is a founding member of DBSA, which he helped build up from an organisation of 30 people and an annual budget of R100-million in 1983 to the 50th largest institution in SA.

Dr Brand's interests have always been in agriculture, economics and development. They led him to serve as chairman and member of more than 19 councils, commissions and boards.

Colleagues say he is reserved and soft-spoken with endless patience, too modest to be seen chauffeur-driven or using a car phone.

But for a man described as "a brilliant student", Dr Brand is surprisingly bad in the technical arena.

He refuses to use a personal computer and has never mastered all the electronic gadgets in his car.

"He was once stuck in his car because he couldn't work out how to open the doors," says Mr La Grange.

In 1984, he was one of the Sunday Times Top Five Businessmen.

Mines urged to increase cover

B/Day 13/11/92 (58)

ROBERT WICKS

THE SA mining industry has been criticised for lagging behind in arranging advanced and comprehensive insurance packages, and mining houses have been advised to purchase "catastrophe insurance" to protect shareholders.

But such claims have been disputed by mining industry sources who said the concerns of shareholders were always a priority and that insurance policies were of a certain nature because mining houses did not always see themselves as being exposed to particular risks.

PFV insurance broker Trevor Malton said many policies did not cater for underground flooding, earthquakes, shaft or rock collapses or certain business interruptions.

He said that standard fire and peril covers did not meet the needs of many mining companies.

Anglovaal insurance manager Haig McLaren said as a general rule, the domestic insurance market was reluctant to give underground flood cover, but it could be obtained overseas subject to negotiation.

Malton said: "Insurance has to provide complete protection for mining companies and requires much in-depth research and a knowledge — based on years of experience — of the risks involved."

He said some mining houses felt it unnecessary to purchase full business interruption insurance — which could be relatively expensive because of the substantial budgeted revenues — and tended to opt for standing charges only cover.

"Business interruption insurance should be designed to take into account the fact that different tax rates apply to mining revenue, as opposed to non-mining revenue."

This was confirmed by McLaren who said shareholders' interests should be protected through the use of business interruption insurance.

He said the nature of mining insurance policies was largely dependent on a mine's track record, but some mines had it within their ability to withstand small losses.

Anglo American official Theresa Erasmus said the group's policy regarding risk and insurance was to identify, measure and keep under constant review the risks to which the group's companies were exposed.

Erasmus said the corporation applied strict discipline to control, eliminate and improve conditions and practices which generated any exposure to risk.

"Our policy is to purchase, as far as available at commercial prices, insurance for those risks beyond the absorbed retention levels. This is primarily to protect the catastrophic exposures of the corporation but must also be need related," she said.

A Gold Fields spokesman said mining houses were being forced to take on catastrophe insurance.

He said the company was at present insured against fires, explosions and rioting, but not against storm damage as it was unviable and far too costly.

Malton said: "Some mining houses take the view that future mining costs are an unknown factor and that their shareholders look for meaningful dividends today and not some time in the future. These mining houses ensure their shareholders are, as far as possible, fully protected insofar as insurance will allow."

Local govt Act is slammed

THEO RAWANA

THE National Interim Civics Committee (NICC), an umbrella group for civic organisations, has backed the ANC's rejection of the Interim Measures on Local Government Act and its call for a national negotiating forum on local government.

Government and ANC delegations met last Thursday and, while both parties agreed that the provision of services was a crisis requiring a national response, the ANC issued a statement rejecting the Act and calling for the creation of a national negotiating forum. B/Day 13/1/92

The Act set up structures and processes in terms of which locally based organisations can negotiate new structures for their areas.

The government team rejected the creation of such a forum and, while acknowledging that the Act contained inadequacies, said it served as a vehicle to move away from racially based local government structures.

While supporting the ANC's move to hold talks with Local Government Minister Leon Wessels, NICC general secretary Sthembiso Radebe said in a statement on Friday some provincial administrations were using the Act to coerce civics to enter into negotiations with white local authorities towards the restructuring of their towns.

"We note that lack of a uniform approach towards the restructuring of the towns and cities might give an opportunity to some local authorities to entrench apartheid structures," Radebe said.

"We implore the ANC (local government department) to facilitate the convening of an urgent national consultative conference to discuss, inter alia, the modalities of the proposed national negotiation forum and the guiding principles for local negotiations which would enhance uniformity at local-level negotiations," Radebe said.

THE MONEY MARKETS by Sheridan Connolly

Rates drift as dealers await a cut

RATES continued sliding downwards last week, signalling the market's anticipation of an imminent cut in key interest rates.

The three-month Treasury bill rate dropped to 16,00% after easing to 16,09% last week in the weekly Reserve Bank tender. Dealers said applications for the high R200m tender had totalled R1,01bn.

An aggressive midweek move by The Discount House of SA pre-empted an official lowering in the three-month liquid BA rate to 16,25% from its recent level of 16,35% but other institutions soon followed.

Towards the end of the week the money market shortage was higher — at R1,405bn on Thursday from R1,160bn on Wednesday.

Dealers were unanimous that there could be at least a one-percentage-point cut in official rates this quarter and said that this was more than confirmed by bullish sentiment and high liquidity levels. Some dealers believe Reserve Bank Governor Chris Stals could make a move by month-end should the next set of inflation figures show a downward trend. (58)

One analyst said there would be some upward correction in rates if a cut in official rates failed to materialise within the next month or so. He noted stronger demand for long-term paper, which was offering good returns to investors.

The effects of a bullish money market spilled over into the capital market and dealers reported a substantial drop in medium-term rates.

In the longer term, rates are also expected to drift downwards with the exception of the R150 bond, which should remain around the 16,500% level ahead of the options close-out in February, dealers said.

Earlier in the week, capital market rates firmed slightly as players returned after the Christmas break. Dealers said despite bullish sentiment trade was expected to move sideways until fresh economic data signalled the long-awaited cut in official interest rates could be imminent.

B/Day 13/1/92

'Gilbeys trusted Fundstrust'

S8

LINDA ENSOR

CAPE TOWN — Gilbeys, which had R45m invested with financial broking house Fundstrust at the time of Fundstrust's provisional liquidation, had previously channelled hundreds of millions of rands through the company, former director Ansi Kamfer said in a statement at the weekend.

She denied there had been irregularities and said several Gilbeys directors and other personnel had entrusted large sums of money with former bookkeeper Margaret Harding to invest through Fundstrust in the money market.

Kamfer claimed Gilbeys was well aware of the fact that Harding had invested hundreds of millions of rands through Fundstrust over an 18-month period.

However, a Gilbeys spokesman repeated the company's claim that Harding had acted without authorisation and in contravention of the Deposit-Taking Institutions Act.

"Gilbeys at no time has ever issued authority for fixing deposit funds," the spokesman said, adding that Harding had admitted she received secret commissions of more than R1m from Fundstrust for her unauthorised placement of R45m on fixed deposit. He said there was no further comment as this could prejudice any criminal and civil proceedings which might follow.

But Kamfer said in her statement Gilbeys had made extensive use of the money

☐ To Page 2

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Gilbeys

S8

☐ From Page 1

market and had produced a daily cash flow report and schedule on these activities. Gilbeys financial manager Doug Galt had allegedly managed Harding's activities.

"Mrs Harding in her activities earned millions of rands on behalf of Gilbeys in the money market and was congratulated by Gilbeys on her efforts," Kamfer said. She said the company had earned R700 000 in interest monthly on the R45m it had invested through Fundstrust.

A copy of an internal Gilbeys memorandum attached to Kamfer's statement, which was sent to the company's top executives as well as its auditors, said Harding had managed the account well.

"Mrs Harding has proved to be an excellent negotiator in the money market and the best possible interest rates are being obtained, both for borrowings and deposits," the memorandum said.

Kamfer believed that all Fundstrust creditors would be paid in full if valuable property interests were properly administered and realised.

"If, however, the property interests are sacrificed for the sake of expediency in forced sales in execution, this will inevitably prejudice the creditors," Kamfer said.

Kamfer and fellow former director Barrie Engelbrecht will be opposing the application for the provisional sequestration of their estates in the Cape Town Supreme Court on January 29.

Government forced to increase borrowings

STAR 14/1/92

By Derek Tommey (58)

Money market sources expect the Department of Finance to increase its issue of Treasury bills in the next few weeks to raise funds to offset revenue lost from sagging tax receipts.

Recent Treasury figures show that tax revenues are falling well behind estimates.

In his Budget speech last March, Minister of Finance Barend du Plessis forecast that tax revenue would rise by R7,5 billion in the current fiscal year.

However, in the eight months to November, Treasury receipts increased by only R2 billion to R45,5 billion.

Treasury figures for December should be published this weekend, but are not expected to show much improvement.

The Department of Finance has been steadily increasing its issues of Treasury bills to ease its cash shortage.

For most of last year the Treasury bill tender issue was around R100 million a week.

It remained at that level until April 5 last year when the amount was raised to R130 million a week. On May 24 the issue was raised to R150 million a week and on November 1 to R200 million a week.

Barend du Plessis . . . forecast tax revenue would rise by R7,5 billion

On these figures, the Treasury is now borrowing about R430 million a month more from the money market than a year ago, although there were no plans in the Budget to increase borrowing.

Money market dealers say the expected increase in Treasury tenders could come this week.

So far, the increase in the bill issues has not had any effect on interest rates owing to the huge amount of surplus funds in the money market.

At last week's tender, R1 billion was tendered for the R200 million worth of bills on offer.

However, there seems to be a possibility that the Government's need for cash could result in some hardening in rates in the capital market.

The Treasury projected Government stock issues this year at R14,15 billion and by the end of November had raised R10,6 billion of this sum.

If the Treasury limits its stock issues to the outstanding R3,4 billion in the remaining four months, rates should not be affected.

But if it continues to borrow at the rate it has been doing, some firming in short-term capital rates seems possibile.

Detailed figures for November's tax collections will only be available at the weekend. However, if the October figures are anything to go by, they will not be happy reading.

In October, income tax collections at R3,5 billion were only R105 million more than a year earlier, while sales tax collections at R1,56 billion were down R30 million.

Overall, inland revenue collections in October showed an increase of R180 million on last year.

The other main source of government income — customs and excise duties — showed little increase.

Total collections amounted to R1,1 billion, up R72 million on last October.

After taking into account Customs Union payments, total customs and excise receipts for the month were R64,2 million, against R334,1 million a year ago.

In view of the low level of state revenue and the apparent inability so far of VAT to make up the shortfall, there has been speculation in some financial circles that the Government will have to increase taxes in the next Budget. A sharp hike in VAT seems to be the most favoured method.

However, any increase in taxes would seem to be an unwise move with the economy in its present parlous state. Raising even more taxes from an already weak private sector could be courting disaster.

There are hopes that the resurgent US economy might lift the SA economy, but this cannot be relied upon.

It looks increasingly as if SA will have to pull itself up by its own bootstraps. For this it needs a major increase in domestic savings — and also a big change in tax policy.

But there is no doubt that the economy could grow much faster than it has been doing, if income tax policy were changed so that the Government stopped using SA's seed corn to feed a bloated public service.

OM unit trusts bullish on JSE

STAR 15/1/92

(58)

By Magnus Heystek

Old Mutual remains bullish about the outlook for the Johannesburg Stock Exchange, despite a general consensus that the market is very high.

This is reflected in the low liquidity levels of its four unit trusts at end-December 1991.

Roland Chute, assistant general manager in charge of unit trusts, says investments rose in companies likely to benefit from an expected increase in Gross Domestic Fixed Investment.

This approach can be seen in the additional purchases of shares like Haggie, Chemserve, Toco, Reunert and Iscor.

Other sectors favoured include the banking, financial and insurance sectors.

Of interest was the more than doubling of the number of shares in GDM Finance, a company involved in trade finance.

The number of accounts in Old Mutual unit trusts rose by more than 13 000 to exceed 300 000 for the first time in the December quarter last year, making it the largest unit trust management company by far.

The Investors' Fund, the largest and most broadly based of all the funds, now has assets in excess of R3 billion.

Traditionally a front-runner when it comes to investment returns, it kept up the sterling performance in the year to December, with an overall return of 36,6 percent on a repurchase to repurchase basis.

The Investors' Fund has recorded overall performance figures over three, five, seven, ten and fifteen years of 25,8, 21,6, 29,3, 25,8 and 28,9 percent respectively.

The Gold Fund remained fully invested, with funds available for investment down to 5,62 percent.

Purchases focused on quality golds such as Driefontein, Vaal Reefs, Harties and Southvaal.

Oryx was included in the portfolio for the first time and there were additions to Unisel, Deelkraal and East Dagga.

The Mining Fund sold its stake in Sasol, while there was a partial switch out of Rusplats into Lydenburg.

The total market value of the Income Fund grew by 20 percent for the second quarter in succession and now stands at R61,7 million.

Overall returns, however, were below the inflation rate at 15,8 percent.

COMPANIES

UAL general equity nets 30%

SEAN VAN ZYL

UAL Merchant Bank's general equity unit trust, UAL Unit Trust, has disclosed a total return of 30,2% for the 12 months ended December. (58)

Total return from the mining and resources fund was 24,6%, that from the selected opportunities fund was 41,5% and the UAL gilt fund was 14,3%.

The general equity fund has declared a record payout of 23,3c a unit and the mining and resources fund a distribution of 4,1c a unit. The selected opportunities and the gilt fund make their distributions half-yearly in March and September.

UAL portfolio manager Richard Anderson said the general equity fund's liquidity was marginally reduced to 21% during the last quarter. He expected liquidity to drop further in the current quarter. Although the equity market was expected to drift sideways early in 1992, Anderson was confident share prices would hold their ground. B/Day 15/1/92

"Although industrial shares look fully valued, I think there is still room for upward movement — there is a lot of money coming to the market."

Old Mutual's unit trusts worth R3,5bn

B/Day 15/1/92 (58)

LINDA ENSOR

CAPE TOWN — The market value of assets of all Old Mutual's unit trusts rose 46% to R3,5bn (R2,4bn) in 1991, while accounts increased by 59 409 to 364 376.

Assets of the largest fund in the industry, Old Mutual Investors' Fund, soared by R942m to R3,1bn.

The Old Mutual funds remained fully invested in the last quarter of 1991 with the liquidity of the R3bn Investors' Fund falling to below 10% from 12% at the end of the September quarter. Liquidity of the Old Mutual Industrial Fund dropped to 6,9% (12%), the Old Mutual Gold Fund was down to 5,62% (9%) and the Old Mutual Mining Fund slipped to 5,4% (6%).

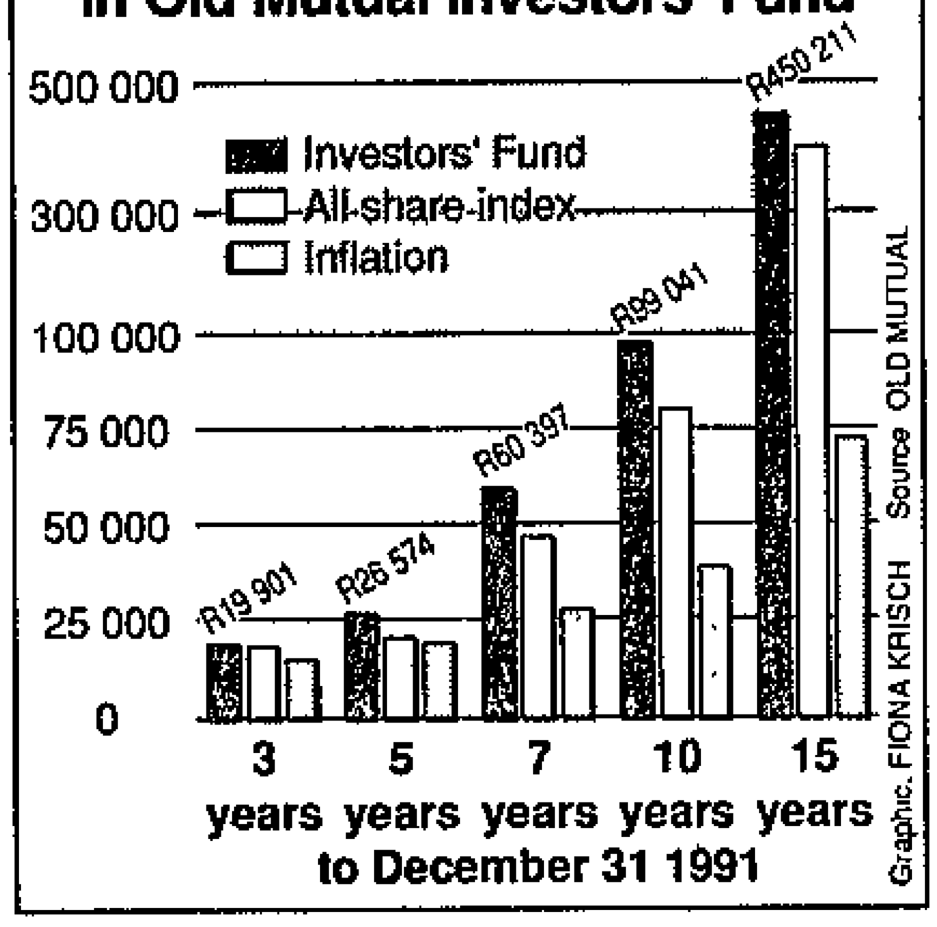
Liquidity of the recently launched Top Companies Fund with assets of about R59m was about 33% due to the heavy inflow of cash.

Old Mutual Investments assistant GM Rowland Chute said the low liquidity levels reflected bullish sentiment in spite of the stock market's high ratings.

Returns for five of the six funds in the Old Mutual stable on a sale to repurchase basis were: Old Mutual Investors' Fund 27,06%; Old Mutual Industrial Fund 32,3%; Old Mutual Income Fund 14,52%, Old Mutual Mining Fund 1,06% and Old Mutual Gold Fund minus 14,54%. The Top Companies Fund is new and has no performance record.

Over three, five, seven, 10 and 15 year terms the Old Mutual Investors' Fund has outstripped the all share index and inflation, producing returns of 25,8%, 21,6%, 29,3%, 25,8% and 28,9%.

Growth of lump sum investment in Old Mutual Investors' Fund



Chute said the weightings of those shares likely to benefit from increased Gross Domestic Fixed Investment (GDFI) were increased in the last quarter. The Top Companies Fund's growth portfolio consists of GDFI shares such as Murray & Roberts, Hudaco and Fraser Alexander.

Among the second liners bought for their growth potential were Mashold and Sechold. Major holdings are Absa, Mutual & Federal, Richemont, SunBop, Barlows and Rembrandt.

The Investors' Fund spent R38,6m purchasing Engen shares, reduced its Sasol holding and acquired 300 000 PP Plats shares.

Selective purchasing by Old Mutual Industrial Fund focused on banks and financial services, insurance and GDFI shares.

The Old Mutual Gold Fund's purchases were focused on quality golds such as Driefontein, Vaal Reefs, Harties and Southvaal.

The Old Mutual Mining Fund sold its stake in Sasol and partially switched out of Rusplats into Lydenburg.

The total market value of the Income Fund grew by 20% to R61,7m.

Sun Life to be delisted

Finance Staff STAR 15/1/92

Sun Life is set to be delisted from the London Stock Exchange (LSE) as new owner Rockleigh is close to achieving the necessary 96 percent control of the UK insurance group.

Speculation has now focused on the future of Sun Life, which was acquired last year by Rockleigh, a joint holding company set up by Liberty Life's UK group TransAtlantic and leading French assurer UAP. (58)

Liberty chairman Donald Gordon said yesterday that Rockleigh had control of about 95 percent of Sunlife and would proceed with the compulsory acquisition of the remaining four percent once 96 percent control had been achieved.

Sunlife will subsequently be delisted, Mr Gordon said, adding though that TransAtlantic and UAP, who will hold 50 percent each at that stage, had not yet held talks on the future of the group.

The Star's London bureau reports that Sunlife chairman Peter Grant would like to see the £800 million Sun Life refloated, possibly as a much larger company, including parts of TransAtlantic.

Mr Gordon said that he would discuss the matter with UAP in February but added that there were certain advantages for Sunlife in being delisted.

Many estate agents will go to the wall, says Seeff

B/Day 15/1/92

LINDA ENSOR

(58)

CAPE TOWN — There would be a shake-up of the estate agency industry this year, with many firms going out of business, Seeff Residential Property MD Samuel Seeff predicted yesterday.

"We think there will be a reduction in the number of real estate agencies as more and more go to the wall," he said.

First to disappear, Seeff said, would be the many inexperienced and poorly trained estate agents with limited capital who had flooded the market when conditions were good.

Signs of difficulty were the fact that agents were cutting commissions and reducing advertising.

Seeff said the process of attrition had already begun as many agents had faded from the scene, conveyancers reported large reductions in their workload and bank repossessions increased.

He said the readjustment of the housing market would continue this year, and then prices would begin to increase. He believed 1992 would offer the last opportunity to buy a reasonably priced home.

"Potential buyers would be well advised to make 1992 the year to purchase their property, as later it will become very expensive."

The cost of housing in SA was relatively low, in terms of rands per square metre, compared with Western nations. House prices in SA had not kept abreast with the inflation rate over the past year and Seeff foresaw a continuation of the trend in 1992 as the market adjusted to the recession and political developments.

The continued high rate of mortgage bond interest would also play a role.

Seeff said Reserve Bank governor Chris Stals was resisting all appeals to make housing loans cheaper by reducing interest rates, and this had created considerable difficulty for home owners burdened with all kinds of cost-push inflationary pressures.

"Government and quasi-government employees enjoying subsidised housing are going to be the last to feel the pinch, but it is coming and when it does I predict we will see a steady decline in interest rates as the subsidised civil servant demands relief from his employer.

"When that happens, the period of adjustment in the housing market will have reached a nadir and we will begin to see prices increasing towards more realistic levels," Seeff said.

Recession bites the top bracket

BDay 15/1/92 (153)

NINA SHAND

THE recession has taken its toll on the top end of the residential property market. Prices have dropped in real terms, and sellers are being forced to mark down properties to secure sales. (58/103)

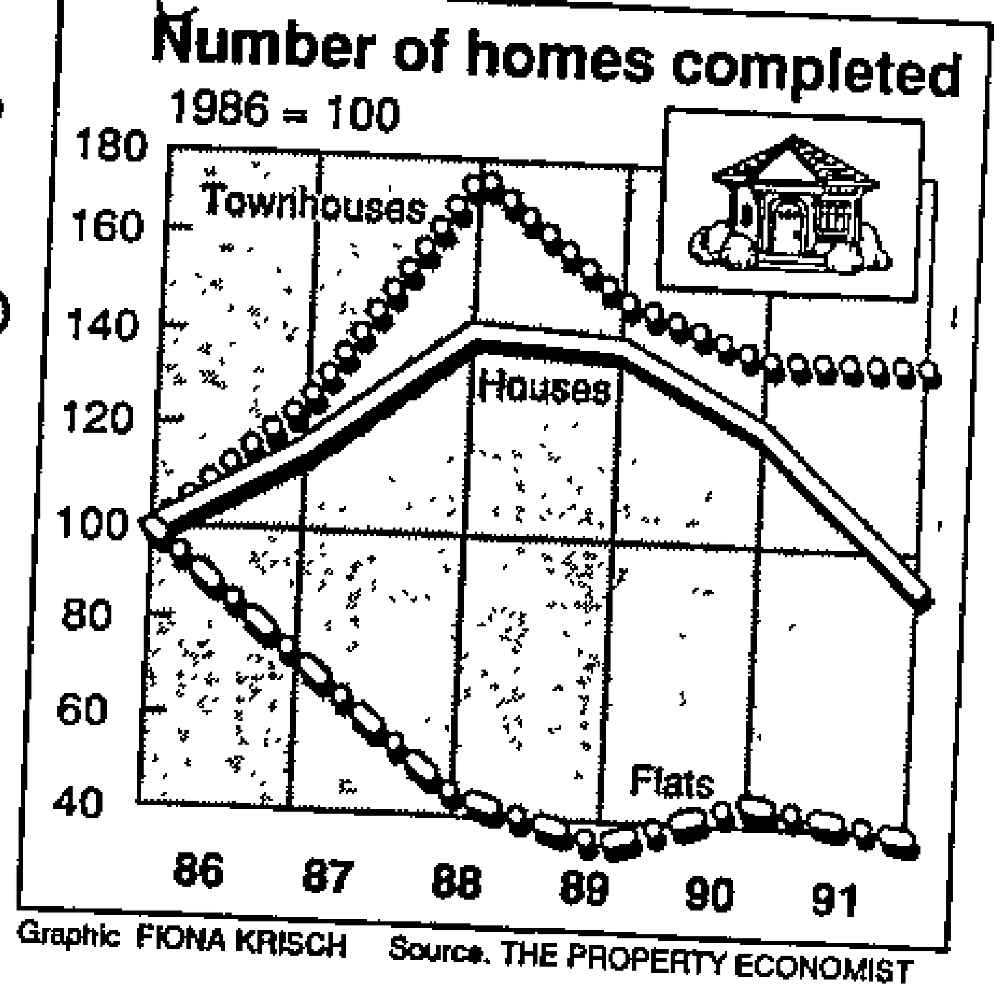
Prices are increasing at less than 1% a month, but building costs are rising at 2% a month, according to residential property analysts.

Worst-affected are houses in the higher end of the market, in which owners are being forced to drop their estimates of their house's worth. Camdon MD Scott McRae said the market was resisting over-pricing.

However, two growth areas have been identified despite the depressed state of the market: cluster housing and sectional titles. Property economist Neville Berkowitz said these were popular, not only because of relatively attractive prices but for the security they offered.

Homes showing little or no increase in prices were those in the R150 000 to R250 000 bracket. Berkowitz added that building a house was 35% more expensive than buying an existing home.

McRae said interest rates should be cut to stimulate the market and provide some relief, especially for first-time home owners. Even a small drop would be a great morale booster and have a positive psychological effect on home buyers.



Graphic FIONA KRISCH Source: THE PROPERTY ECONOMIST

There had been lots of activity during the first 10 days of January, he said, and signals for a healthy property market in 1992 were evident, but the market was "generally soft" and property analysts were not optimistic.

A spokesman for First National Bank's home loans department said he expected interest rates to drop one percentage point in the next three months, and at least two percentage points by the end of the year.

Estate agents' diploma introduced in SA

B Day 15/1/92

(58)

JONO WATERS

AN internationally recognised diploma course for estate agents is being offered for the first time in SA.

The CRB Property Diploma course, sponsored by the Perm and endorsed by the National Property Academy and Institute of Estate Agents of SA, will start in February.

The course was designed in the US by real estate experts and covers all areas of SA real estate including residential, commercial and industrial business.

The course may be completed in two-, three- or four-year modules, and after completion participants will be awarded full membership of the faculty.

Drexanne Evers, senior faculty instructor of the US CRB Teaching Academy, will be teaching the course that runs in Johannesburg, Cape Town and Durban.

Evers, who holds an MBA, was co-author of the book on top residential property negotiators, Tips from the Top.

Further information can be obtained from Terry Ash at (011) 674-5321.

Trade flow secrecy has rand-watchers groping in the dark

(58) **SIMON WILLSON** B|Day 15|1|92

RAND-watchers will have had a perplexing year-end in 1991. Any attempt to examine the effective strength of the currency by looking at its trade-weighted value will have yielded a bewildering range of measurements from official and private sector sources.

The various published calculations of last year's effective rand in the market are so divergent that they appear to be dealing with totally different currencies.

Last month, for instance, the professional rand-watcher will have received at least two respected and authoritative publications containing a carefully calculated trade-weighted index for the rand during 1991: the December edition of the Reserve Bank Quarterly Bulletin and the December edition of Standard Bank's Economic Review.

But our diligent observer will have been little the wiser as to the rand's true effective value after reading each of these estimable publications. The Economic Review will have told him of the "fairly stable trade-weighted rand exchange rate, which declined by just 1,6% from December 1990 to November 1991".

The Quarterly Bulletin, on the other hand, will have confused our anxious professional by declaiming: "The nominal effective exchange rate of the rand has now declined by 5,5% from the end of 1990 until the end of October 1991." Reference to the bulletin's accompanying tables will have shown the Reserve Bank's calculation of the December 1990-November 1991 fall in the effective rand to be 5,4% against Standard's 1.6%.

Which of these sharply contrasting figures is the earnest rand-watcher to believe? Does the true figure lie, instead, in the range between the two published figures or, indeed, outside it?

The confusion has its source in the authorities' decision in 1985 to withhold SA's official trade figures from the public domain to reduce the country's vulnerability to sanctions. Calculation of the trade-weighted, or effective, rand relies on the revelation of bilateral trade flows with major trading partners to determine the weight in the effective "basket" of each of the trading partners' currencies.

Among the traders in the rand market, only the Reserve Bank currently knows the size of these trade flows, which enables it to calculate the official trade-weighted rand index published in the Quarterly Bulletin. The essential official data for assembling the trade-weighted index of the national currency are secrets not disclosed to the rest of the financial sector.

The main scheduled dissemination of this crucially important measure of the rand's value is carried out through the Quarterly Bulletin, which updates the table of the trade-weighted rand's value at — for traders of the rand — frustratingly infrequent three-month intervals.

The Bank also releases monthly figures on the financial economy, which include updates of the effective rand index. But for institutions which trade the rand in the foreign exchange market, the change in the trade-weighted rand over 30 minutes can abruptly reverse trading sentiment and, unsurprisingly, they find a minimum 30-day wait for an effective rand level a shade beyond their preferred dealing horizon.

Many of the nation's financial institutions therefore distil their own trade-weighted rand indices from various mixtures of currencies and weights.

The effective rand recipes are jealously guarded for, in the absence of an official set of currencies and weights, many institutions like to believe they have a version that parallels the one deployed by the Reserve Bank.

Thus, the rand-watcher looking for the change in the trade-weighted rand over calendar 1991 before the official data were released by the Reserve Bank would, earlier this month, have had a variety to choose from: FNB -7,1%; Old Mutual -6,4%; Sanlam -7,1%; Standard -2,3% and UAL -7,5%.

The official Bank index has not been published yet but will be around -6,3%, probably leaving Old Mutual's as the nearest proxy index for last year.

The wide range of changes in the effective rand measured by the institutions arises from their different methods of calculating the rand's trade-weighted index. Standard's basket of trading partners' currencies contains 12 currencies, the Reserve Bank's basket holds six and UAL uses four. The Bank and most other institutions use 1979 as the base year for the index; Standard uses 1983.

An accurate and constantly updating trade-weighted rand index is more than a badge of respectability in the foreign exchange market: under certain circumstances it may allow rand traders in the market to second-guess possible Reserve Bank intervention to support or restrain the rand, depending on its strength or weakness.

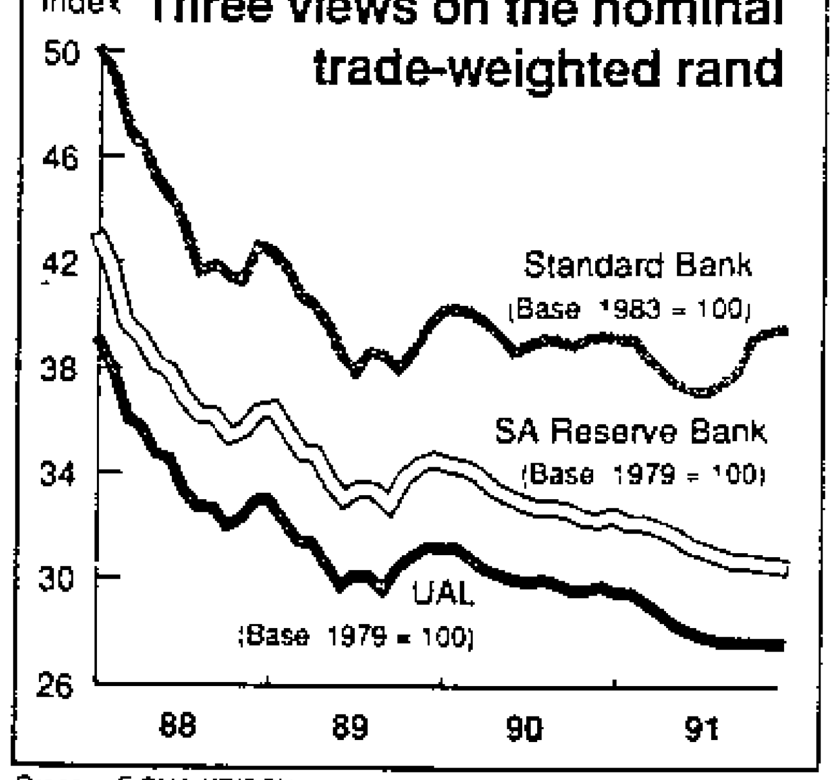
Indeed, perhaps mindful of the old saying "information is power: prior information is wealth", economists like Sanlam's Eric Coetzee feel there is a thin dividing line between second-guessing the level of the effective rand and actually anticipating it.

"When you have a secret trade-weighted rand then you create the opportunity for people to profit from it. If the currency weightings are secret, no one can check what is really going on."

Coetzee says the authorities could make the effective rand's weightings public without giving much away about SA's bilateral trading relationships. "So much trade is denominated in dollars anyway that the weightings won't give a true picture of who our main trading partners are. Although we give a 53% weighting to the dollar in our index, our trade with the US is definitely less than 53% of our total trade."

Sanlam economists plan to visit the Reserve Bank later this year to lobby for more openness in the calculation of the trade-weighted rand. Specifically, Sanlam will be speaking for many in the foreign exchange market in asking that the weights accorded each of the trading partners' currencies in the Bank's effective rand basket be made public.

Three views on the nominal trade-weighted rand



Graphic: FIONA KRISCH

STERLING INDEX

	Jan 9	Previous
8 30 am	91 2	91 5
9 00 am	91 2	91 4
10 00 am	91 2	91 5
11 00 am	91.2	91 5
Noon	91 2	91.5
1 00 pm	91 1	91 5
2 00 pm	91 1	91 5
3 00 pm	91 1	91 4
4 00 pm	91 0	91 4

CURRENCY MOVEMENTS

No secrets: The Bank of England calculates sterling's effective index nine times a day, and the results are published in UK newspapers

Prima Bank results challenge negative view of small banks

B/Day 15/1/92 ANDREW GILL (58)

INDEPENDENT group Prima Bank Holdings has again challenged negative perceptions of small banks after turning in a 50% growth in net profits on an enlarged capital base for the six months to end December.

Profits of R1,7m (R850 000) translated into a 44% return on shareholders' funds after a R3m capital injection from an unnamed private placement.

Group MD Johan Bellingan said yesterday the group would be looking for further capital in the last six months of the fiscal year but not necessarily in the form of a rights issue.

He said he would like to see shareholders' funds up above R20m from their current R12,5m. One possibility was bringing in a foreign partner to increase capital.

He also said a study was being done into the feasibility of developing a R55m 180-room hotel by Caribbean Estates (in which Prima has a 15% stake) next to the Wild Coast Sun.

All divisions of the bank performed well in the period under review and profitability would at least be maintained in the second six months, he said.

The group also announced that subsidiary Prima Bank Nominees' activities had been discontinued as a result of "difficulties experienced in operating within the boundaries of the Deposit Taking Institutions Act".

Constraint

Its operations in the money and capital markets were taken on by the bank itself.

The bank, he said, had no capital constraint on growth as reflected in its risk-weighted capital to asset ratio of 10%. There was, however, a constraint on growth because of negative perceptions about small banks.

The problems involving the liquidated Cape Investment Bank, Pretoria Bank, Masterbond and Fundstrust had placed a taint on small banks. By increasing the capital base, Prima could increase its stature, he said.

Also, the bank could do "bigger and better deals" with a larger capital base.

The bank's deposit base had been shrinking as a result of negative publicity about small banks. It currently stood at about R120m.

Further growth would most likely take place within the group within the next two to three years, following the purchase of Corvest, Genfin, Prima Property Trust and Caribbean, he said.

The takeover of Corvest and Genfin following CIB's liquidation had been approved at the offer prices by the liquidator, he said, and reiterated that no losses would result from the CIB buyout and liquidation.

Allied denies guilt in dismissal case

SUSAN RUSSELL (58)

ALLIED Group Ltd/Absa, represented by Allied Group MD Bob Aldworth, pleaded not guilty in the Johannesburg Magistrate's Court yesterday to contravening the Basic Conditions of Employment Act.

The case arises from the dismissal of executive Patrick Ronan in July last year shortly after the takeover of the Allied Group by the UBS and its merger with Volkskas and parts of Sage to form Amalgamated Banks of SA (Absa).

Ronan, who was assistant to former Allied MD Kevin de Villiers prior to the takeover battle between FNB and UBS, claims the group breached his conditions of employment by failing to give him 12 months' notice as agreed between himself and De Villiers. BDay 15/1/92

He received four months' salary, R44 000, from the group and claims he is still owed R100 000.

Ronan told the court yesterday he asked De Villiers for a 12-month notice term as "protection" after an investigation he conducted into alleged irregularities and fraud committed against the company led to acrimony and threats from certain senior Allied and Sage executives.

"I conducted this investigation over several months and compiled a 100-page report detailing evidence of the irregularities which were uncovered."

Ronan said he had included a report of a R60m loss incurred in the US by Sage which, at the time, had a major shareholding in Allied. This, Ronan said, caused acrimony between himself and Sage executive chairman Louis Shill.

"My investigations were also embarrassing to certain members of the Allied

□ To Page 2

Prima Bank powers up

(58)

Finance Staff STAR 15/1/92

In the six months to December 1991 Prima Bank doubled its net income (after tax and transfer to internal reserves) from R850 000 to R1,7 million.

This is equivalent to 85c a share (42,5c previously) and represents an annualised return on funds of 44 percent.

MD Johan Bellingan expects first-half profit levels to be at least maintained in the second half.

He says Prima's results were satisfactory, given prevailing economic conditions. "It is encouraging to note that all divisions of the bank performed well," he says.

A total of R3 million in preference shares was issued in the six months, in line with the board's stated strategy of strengthening the group's share capital, he says.

Strong inflow of funds to Senbank trusts

STAR 16/1/92

The market values of Senbank's general and industrial unit trusts rose by 32 percent and 37 percent respectively in the quarter to end December while the number of unit-holders increased ninefold. (58)

Senbank Management Company reports a significant inflow of funds — R2,3 million in the review period.

The price of units also increased in the last quarter — that of the general trust by 6,77 percent and that of the industrial trust by 9,9 percent.

The fund managers point out that although the expected economic growth should support share prices the JSE and Wall Street prices are currently at high levels.

As a result a more cautious approach is being taken during 1992, and if necessary, liquidity will be increased, they add.

COMPANIES

African Bank's profit up 34%

ANDREW GILL

AFRICAN Bank increased its profit by 34% in the year to end September 1991 as the black-contolled group expanded its outlets, made two acquisitions and brought in new shareholders. BIDay 16/1/92

The bank, whose mission is the economic empowerment of blacks, saw its profit rise to R1,35m from R1,01m the previous year on asset growth of 33%.

However, CE Jack Theron warned the bank was facing a capital constraints on growth and would need to bring more capital on board.

Shareholders' equity stands at R11,6m, up from R9,1m in 1990, thanks to stakes being taken by National Sorghum Breweries, the Ciskei Peoples Development Bank, Metropolitan Life, Premier and Pep. About 70% of the bank is black-owned.

Its capital-to-asset ratio currently stands at about 6%. Chairman Sam Motsuenyane said the bank's capital constraints were the most important inhibiting factor in future growth. (38)

He requested shareholders to consider seriously increasing their shareholdings in order to enable the bank to "grow rapidly into a major and competitive financial institution".

The bank declared a dividend of 7,5c a share, up 25% from 1990.

Authenticity of Allied letter queried

SUSAN RUSSELL

(58)

THE authenticity of an agreement by former Allied Group MD Kevin de Villiers which purported to give a senior executive, Patrick Ronan, 12 months' notice, was called into question yesterday by counsel for Absa. B/Day 16/1/92

Fanie Cilliers SC, for the Allied Group/Absa, submitted that the agreement, dated March 2 1990, had been written on an Allied letterhead which had been printed only a month later.

Ronan's dismissal on July 2 last year led to the Allied Group/Absa being prosecuted on a charge of contravening the Basic Conditions of Employment Act. Allied Group/Absa, represented by Allied Group MD Bob Aldworth, has pleaded not guilty to the charge in the Johannesburg Magistrate's Court.

Cilliers said he would lead evidence that some directors whose names appeared on the letterhead were elected only on March 26 1990. He added that he would present evidence that, as was common practice, the letterheads were printed only after the election of the new directors.

Ronan has said he had written the letter requesting 12 months' notice on March 2 1990 and presented it to De Villiers who, he said, immediately endorsed it. In response to cross-examination, Ronan stated that it was possible the wrong date had been put on the letter. The meeting, he said, could have been on May 2 and not March 2.

"I believe there is something suspicious here," Ronan said.

"There is," Cilliers replied.

□ To Page 2

Allied

B/Day 16/1/92

(58)

□ From Page 1

Ronan denied the document was falsified or that he or De Villiers had backdated it. His employment was terminated shortly after the UBS takeover of Allied and its merger with Volkskas and parts of Sage to form Absa. Ronan has told the court he had been working as De Villiers' assistant at the time the former MD agreed to his 12 months' notice.

He alleges that the banking group breached its agreement by not giving him 12 months' notice.

Ronan said yesterday he knew he was "dead meat" after hearing last June that Absa CE Piet Badenhorst had described him, De Villiers and other Allied executives as "gangsters".

De Villiers, who publicly favoured FNB over UBS in the takeover battle, was initially suspended from his post after the UBS succeeded in its bid. The suspension was withdrawn and De Villiers resigned at the beginning of June last year.

Ronan has testified that he had asked for 12 months' notice as "protection" after his investigations into alleged irregularities within the company had led to threats from certain Allied and Sage executives.

He also told the court he had, of his own volition, gone to the attorney-general in May last year over alleged irregularities involving the issue of 500 000 Allied group shares to its chairman Norman Alborough

He did not go to any of his superiors because the majority of the Allied board was in favour of the UBS takeover.

"It was not that I did not have confidence in some of those people," he said. "I knew they would not want to get involved and I did not want to place them in a compromising position."

Aldworth, who became Allied Group MD on June 5, the day after De Villiers vacated his office, questioned Ronan the following day about his intention to obtain a court interdict to get access to confidential Allied documents.

Ronan said he had refused to answer Aldworth's questions unless his attorney was present. He denied he had been insolent or had threatened Aldworth.

Ronan told the court he was a State witness in the Alborough investigation and denied he had acted as a spy or "mole" for the attorney-general. "I believe I was doing my duty as a citizen."

Ronan said that after his heated meeting with Aldworth he was confined to his desk for a number of weeks and then offered two jobs for which he lacked suitable skills. He perceived this as a "corporate strategy to get rid of me".

He denied that by going to the attorney-general he had breached his obligations to his employers and therefore warranted dismissal. The case continues tomorrow.

Investment will rise (58) Syfrets

SHARON WOOD

FIXED investment over the next two years will be boosted by an interim government that will be set up by June, Syfrets forecasts in its quarterly economic review. B/Day 17/1/92

The Cape Town-based investment and property group projects a modest recovery in fixed investment spending this year, with a stronger performance in 1993.

However, it warns that this scenario hinges on political perceptions and confidence, which are sorely lacking at present.

"But much can be achieved by the establishment of an interim government, and the negotiating process of the Codesa participants must be monitored carefully."

The review says the impact of political progress on the financial markets will be positive if there is a removal of sanctions, an interim government and if negotiations steer towards a federal system.

Adverse factors could be right-wing violence, failure to address the land issue and the lack of a national plan to cope with the uneducated youth.

One of the big uncertainties this year is the upcoming budget in March, with the participation of extra-parliamentary groups the unknown factor, it says.

If there is co-operation it is most unlikely that direct taxes will be lowered because of the political sensitivity of VAT. Thus it will be some time before the consumer will be able to recover, it says.

The most disappointing factor of the downswing has been rising inflation, Syfrets says. However, it forecasts a decline in inflation to at least 14% by year-end.

Based on a deepening of the recession, bank credit and money supply growth and an improved outlook for inflation, Syfrets expects a one-percentage-point cut in the discount rate during the first quarter.

BoE ready to issue commercial paper

(58)

B/Day 17/1/92

LINDA ENSOR

CAPE TOWN — Board of Executors Merchant Bank (BoE) is to launch its commercial paper operation next month and has deals in excess of R50m in the pipeline.

BoE will be one of the first banks to issue commercial paper in SA and will be doing so within the terms of the Reserve Bank's regulations promulgated on January 3. The bank's legal documentation and preparatory work will be completed by the end of the month and the operation will be up and running by February.

Stillborn

BoE group deputy MD Philip Biden said the emerging commercial paper market was expected to be worth hundreds of millions of rands as major corporates turned to commercial paper to meet their short term funding requirements.

But others in the industry have reservations about whether the market will not be stillborn because of the Reserve Bank's requirement that banks endorse the commercial paper.

This requirement means that banks have to charge commission on the endorsements in order to secure a return on the capital set aside to underpin them and this could make the cost of capital too high compared with the other available alternatives.

In terms of the Reserve Bank's regulations companies with a net asset value of at least R100m have to be given a 50% risk weighting by the bank when their paper is endorsed. Companies with a net asset value of under R100m would attract a 100% risk weighting.

The Reserve Bank is on record as saying the endorsement requirement is only a temporary measure but Association of Corporate Treasurers technical committee chairman Tom Makinson expected it to operate for at least 12 months.

"The commercial sector would like to see it dropped sooner rather than later," Makinson said. While the measure gave credibility to the market in its early stages, it was undesirable in the long term as it would create an inefficient market and would add to the costs of the issue.

Makinson said the question of whether the commercial paper market got off the ground at all would depend on the pricing structures applied by the banks. He said there were a number of issues in the pipeline and that the banks appeared to be taking a pragmatic view on pricing.

Biden anticipated that there would be initial caution among both borrowers and investors towards the use of commercial paper and that there would be a need to educate them about the instrument's advantages.

BoE will be targetting companies with a net asset value of R100m or more which carry a 50% weighting. The commission it will charge has not been disclosed.

Unit trust investors could face unnerving ride

STAR 18/1/92

CLIVE FOX

OUTLOOK '92

By Clive Fox, managing director, Consolidated Fund Managers

Unit trusts are becoming a more and more popular investment, as is shown by the huge growth in the industry in the past few years.

The trusts' exceptional performance and the flexibility they afford investors has gone a long way to promoting the growth in the industry.

The past year saw general equity unit trusts record an average performance of 33,6 percent. This was well above the prevailing inflation rate and is somewhat surprising, given the slowdown in the local economy.

This year has begun with strong rises in the JSE overall index, largely fuelled by impressive gains on the industrial boards.

But can this momentum be maintained? This is what every serious investor is now asking.

There is little doubt that institutional cash flows will continue to support the equity market to a considerable degree. This is likely to occur, albeit that there could be some sizeable rights issues in the course of 1992.

Institutional equity activity will probably remain concentrated on blue clip counters. With unit trusts so heavily exposed to blue chips, this buying pressure should translate positively for the equity-based funds.

The argument does not however rest at that point. The JSE and most major international stock exchanges, with the exception of Japan, are now at or near record levels.

Dividend and earnings yields are in historically low territory and the prospect of an early and rapid economic recovery around the globe is uncertain.

Uncertainties

The economic performance of most of the major economies is dismal, to say the least.

The US authorities, in an effort to stimulate growth, have rapidly lowered interest rates to their lowest level in nearly 30 years.

There has also been discussion of the need to stimulate the US economy with fiscal measures in a desperate attempt to reflate the recession-bound economy.

Furthermore, the collapse of Soviet-style communism has heralded a further set of uncertainties. Whether or not Russian president Boris Yeltsin has the ability to satisfy his people's basic survival needs is questionable.

Given the strife in Yugoslavia and Georgia, is there now potential for similar social unrest in the new Commonwealth of Independent States?

Negative developments in this region could well shock world equity markets into some sort of downward correction.

Closer to home, some of the enthusiasm for the new South Africa may not translate into tangible, positive benefits for the economy in the short term.

There is certainly a risk that economic recovery may be delayed in line with that of South Africa's major trading partners.

In the long term, unit trusts should continue to provide investors with inflation-beating returns.

However, given the very high rating of the JSE at present, unit investors need to remain mindful of the risks attached to the market and therefore to their investments.

It is probable that a fair degree of volatility lies ahead this year. The market's progress could prove to be erratic and somewhat unnerving for the uninitiated.

Reserve Bank damper on the rand

11 Times (B455)

19/1/92

By DIRK TIEMANN

THE Reserve Bank has been buying foreign currency for many months to build up reserves and dampen the rand's growing strength, which has been underpinned by strong current account surpluses.

The foreign asset component of the reserves reached a 1991 high of R3,2-billion in November.

The Reserve Bank intends keeping the rand's real effective exchange rate "on an even keel", says Deputy Governor Jaap Meijer.

Fall

This means allowing the rand to depreciate by the inflation differential between SA and its major trading partners.

The real effective rand exchange rate gained in October. It rose 0,7% on September on the Reserve Bank's real rand exchange index to 92,4 points. The index started the year on 92,5%.

The increase came after a 5,5% fall in the nominal rand exchange rate in the first nine months of last year. This drop was greater than the inflation differential, causing a 0,6% decline in the real effective rand exchange rate.

Dr Meijer says the bank faces a dilemma: "On the one hand, a strong rand assists our fight against inflation. But on the other, we have to consider a weak economy and do not want to disadvantage our exporters.

"We are happy to see our exports and our reserves rise and do not want too firm a rand."

Dr Meijer warns that the rand could "become an integral part of the inflation process" if allowed to depreciate by the inflation differential for too long.

The December figures should show that in nominal terms the rand has fallen at least another 10% against all major currencies.

The real average effective exchange rate for the year will probably be slightly more than 92 points — about the same as for 1990. This overall stability in the real exchange rate is maintained in spite of the huge losses the rand has posted against the yen, mark and pound.

These losses are balanced by the rand's gain against the dollar.

Test

In 1979, the Reserve Bank's exchange rate index was 100. At slightly above 92, the rand has weakened by about 8% more than can be attributed to the inflation differential between SA and its trading partners.

This is due to political factors. The index for 1985 was 74,9 and it remained about this level until 1989.

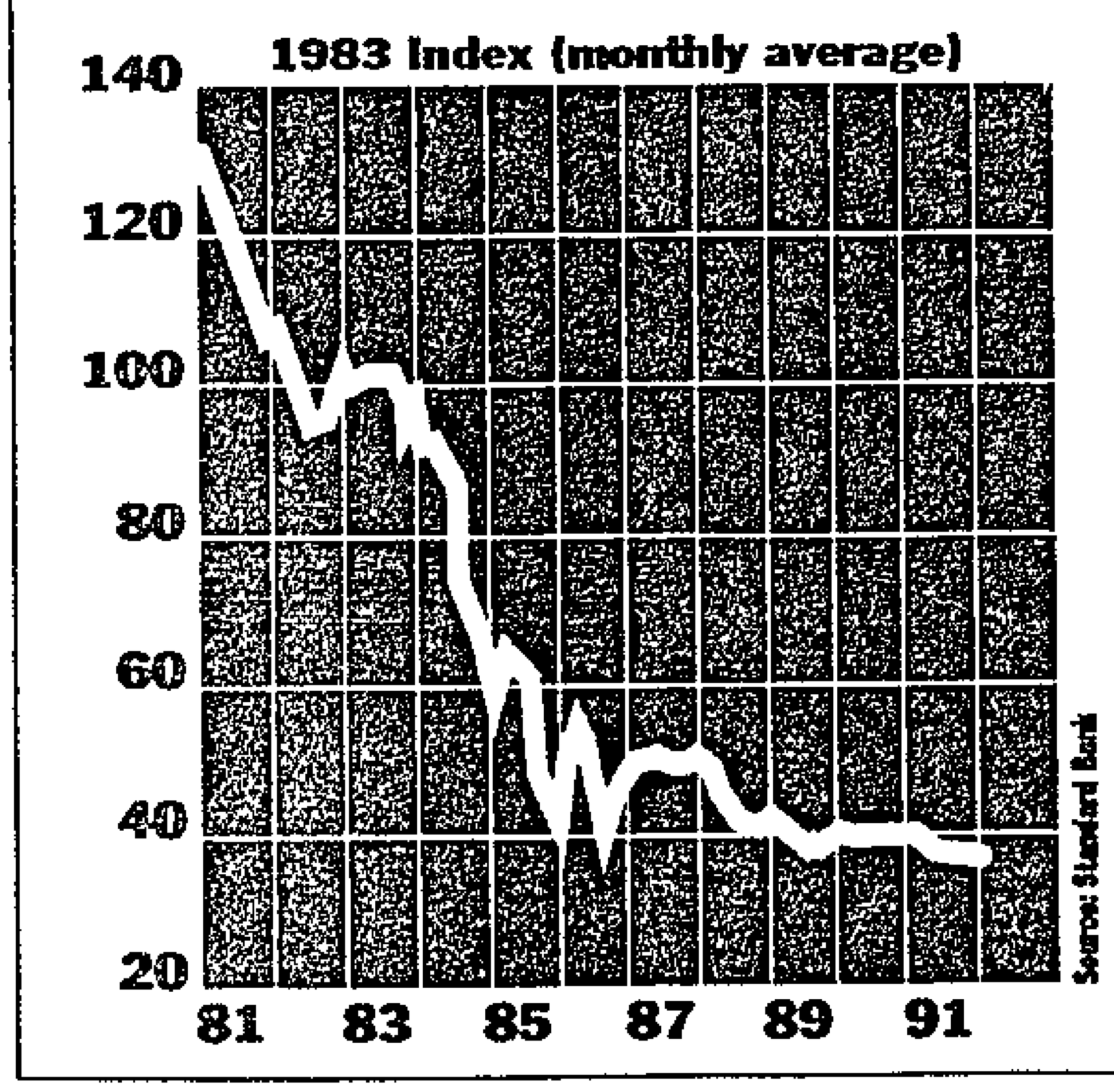
Sanlam forecasts a slight appreciation in the real rand exchange rate in 1992. The nominal effective exchange rate is expected to drop 6%, which is less than the inflation differential.

Standard Bank treasury assistant general manager Willie Potgieter says the rand could test R2,70 to the dollar while weakening to R5,20 to the pound and R1,88 to the mark in the first quarter of this year.

Mr Potgieter says the US economy is not picking up and the dollar is weak. But he expects White House intervention by the end of the second quarter to strengthen the dollar and reduce the wide interest rate differentials between Europe and the US.

He expects the exchange rate to be R3,00 to the dollar by the end of 1992.

TRADE WEIGHTED VALUE OF THE RAND



Octodec rides out storm

STAR 20/1/92.

Diagonal Street
(58) (DHD)
LYNNE PEACH

Octodec, formed by the restructuring of Tomkor and listed in September 1990, performed better than expected in its maiden year, with continued growth forecast.

In the annual report, chairman A Wapnick says that despite the prevailing depressed economy, which mainifests itself in the form of increased property-related expenses and a higher rate of vacancies, the property portfolio continues to perform well, in line with its historic track record of sustaining satisfactory yields in periods of recession.

Mr Wapnick predicts that growth will result from the escalation in income from exising leases.

He forecasts a a distribution of about R20 million (R19,3 million in financial 1991).

Octodec, listed in the property loan stock sector, comprises a selected portfolio of managed retail, commercial and industrial properties located chiefly in the greater Pretoria area.

There are 84 developed properties in the portfolio, which have have relatively low maintenance costs and were acquired at R147,7 million.

In the year to August, turnover was R23 million and operating profit R18,1 million.

After additional income of R1,8 million, the group was able to distribute R19,3 million, which was about R1 million more than the R18,1 million forecast at the time of listing.

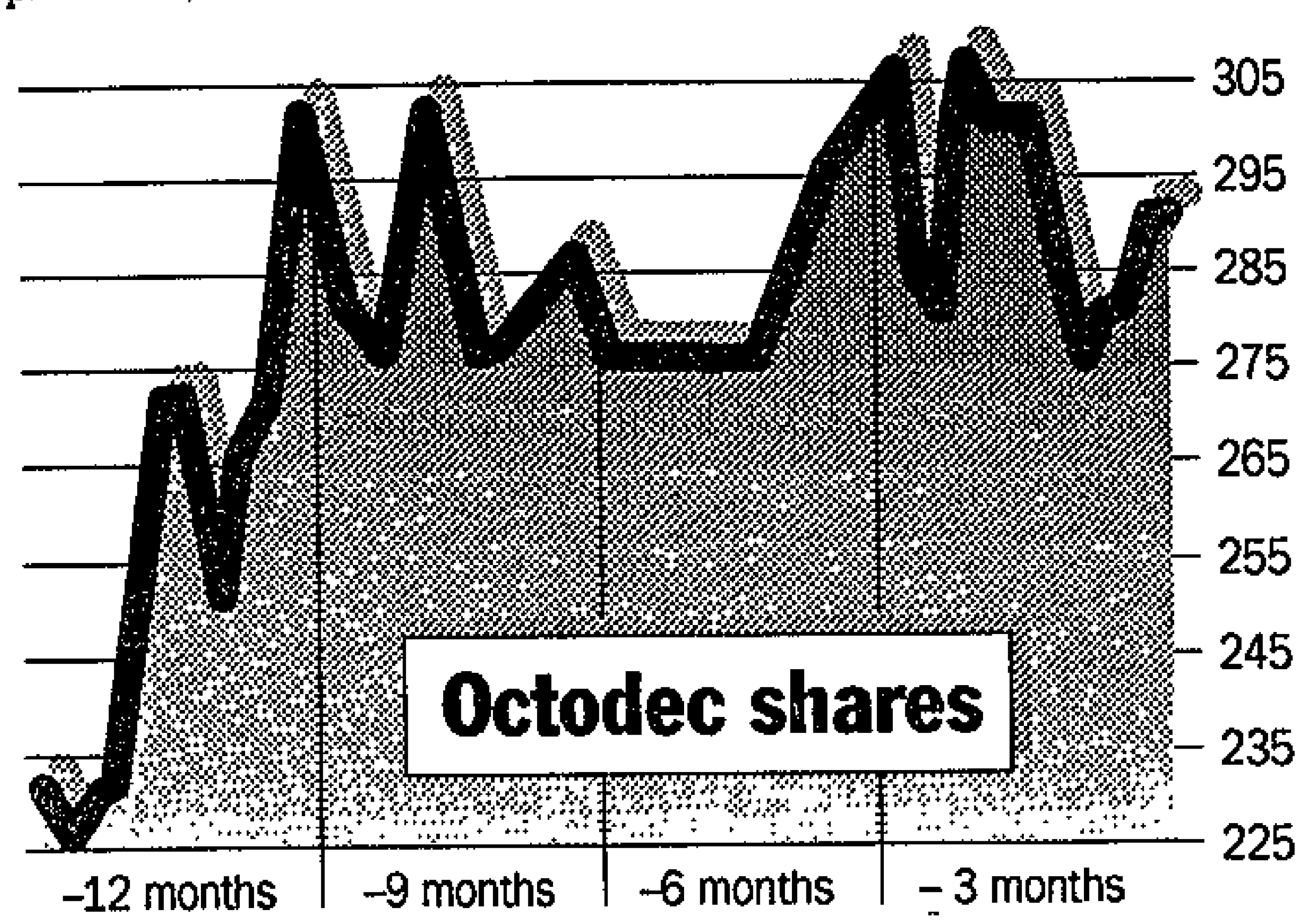
The total return of 40,61c per linked unit, comprising debenture interest of 39,81c and a dividend of 0,80c, translates into a yield of 18,46 percent on the issue price of the linked units.

At the current price of 290c, the share provides an income yield of 14 percent, which exceeds the sector average of approximately 11 percent.

The share price appears to have upward potential in view of the group's credible performance in its first financial year and the expectation that returns will grow in the current year.

COMMENT: Octodec's price rose steeply in the first quarter of 1991 and thereafter spent the year undulating between 275c and 305c.

The current price is 290c and a decisive break in either direction should indicate the future trend.



Graham Linscott looks at business practices in the new SA

58

What has happened to ethics and morality?

STAR 20/1/92

FAMILIAR South African story: two armed men burst into a suburban home in daylight.

They pistol-whip the gardener, demanding money and guns.

They pistol-whip the maid, who has managed to push a terrified infant under a bed and out of harm's way. Nobody else is home.

They take what little money is about, the TV set, the radio, clothing and bedding, and leave in the car standing in the garage. The car is found abandoned next day, its engine cooked.

Familiar South African story Part 2:

The householder is only too thankful his child and the domestic were unharmed. He is insured, all will be well.

He files a claim. But the insurance company rejects it because the policy specifies all accessible opening windows shall be burglar-guarded. An assessor says the house has several small fanlights not burglar-guarded. The policy, on which all premiums had been paid, is therefore void. The company has no liability.

Never mind that the robbers entered through the door in daylight, not through the fanlights.

The insurance company will not pay for the goods stolen or for the towing of the stolen car or for repairs to it.

Worse still, because the policy is void, the cover of the householder's other car is also void.

And because he is in dispute with an insurance company, no other company will touch him.

And, unbelievably worse, his other car is stolen, this time from outside his place of work. In spite of having paid all the premiums, he has no claim at all on the insurance company.

But the householder is welcome to sink his life's savings into a battle in the Supreme Court with the insurance company's lawyers.

I mention the incident merely to ask: What has happened to this country? What has become of ethics, morality? The insurance industry can bleat as hard as it likes about hard times and actuarial contingencies. Its lawyers can bleat about the letter of the law and caveat subscriptor.

But they know inside themselves that what we are discussing here is business morality.

A great struggle of ideas is on in this country — free enterprise versus Big Government. Insurance is surely one of the great underpinnings of the free market.

But if insurance companies can make use of absurd fine-print clauses to escape liability to their clients, do they not bring the entire ethos of free enterprise and business into disrepute?

The moral and ethical test can be applied right across the business sector — to retailers who pay 10 percent VAT and pass it on as 12 or 15 percent, to price-riggers and a host of rip-off artists.

How on earth, with these attitudes in the business sector, are the vast, disadvantaged masses to be persuaded that there is any special morality or value in the free enterprise system; or why they should not use their weight in numbers to get their share of the action when it comes to ripping people off? □

Downward pressure on rates continues

BD ay 20/1/92

THE MONEY MARKETS
by Sheridan Connolly

SOLID downward pressure on market rates continued unabated last week with the Reserve Bank still not prepared to loosen its grip and bow to expectations of a cut in key interest rates.

Dealers said the market's mood was far more buoyant after a better-than-expected drop in the annual rate of producer price inflation (PPI) to 7,9% in November from 11,1% in October.

There was renewed optimism for an emerging downtrend in the consumer price index (CPI) which could allow Reserve Bank Governor Chris Stals room for some easing in official interest rates.

With a lot of cash in the market, the Reserve Bank issued two special Treasury bill (TB) tenders in the week — a seven-day R500m tender and a five-day R800m tender.

Dealers said the first special TB tender, issued on Tuesday, received a very disappointing response in the market but the second issue, on Wednesday, was better received. They viewed the special issues as part of the Bank's routine mid-month operations to drain excess liquidity from the market.

In the weekly Reserve Bank Treasury bill tender, a lower average rate of 15,94% was received for the allotted R200m and applications for the tender totalled R659,5m. Dealers said lower rates confirmed the extremely bullish sentiment which had been building up in the market in the last month or so.

The special tenders brought the money market shortage more or less in line with the R1,5bn level which the Bank is said to favour. Towards the end of the week, the Bank indicated the money market shortage stood at R1,451bn.

On the back of good liquidity levels in the market, the 90-day liquid BA rate eased to 16,15% compared to the previous week's level of 16,20%. Dealers believe the BA rate has bottomed out, saying there will be a kickback in the rate should an imminent official rate cut fail to materialise.

In the capital market, rates were only marginally moved by the PPI figures as the market had largely discounted a drop in the rate of producer price inflation, dealers said. Throughout the week, rates continued to move sideways with the market awaiting the release of fresh data, particularly the release of the CPI data due out about mid-week.

Allied document redrafted, says De Villiers

BDay 20/1/92.

(58)

SUSAN RUSSELL

FORMER Allied Group MD Kevin de Villiers told a Johannesburg magistrate on Friday that an agreement giving a senior executive a 12-month notice term was on a letterhead printed only a month later because the first page of the document had been redrafted at a later date.

The authenticity of the agreement letter has become the central issue in a legal dispute between Allied Group/Absa and former Allied executive Patrick Ronan, whose services were terminated in July last year.

Allied Group/Absa pleaded not guilty last week to contravening the Basic Conditions of Employment Act.

The charge arises from Ronan's claim that the banking group breached his employment contract by not giving him 12 months notice. Ronan and De Villiers have both testified that they entered into the agreement on March 2 1990.

Absa's counsel, Fanie Cilliers SC, has questioned the authenticity of the document because it is written on an Allied letterhead printed at least a month after the agreement was purportedly drawn up. The letterhead on which the agreement was typed contains the names of directors elected on March 26 1990.

Under cross-examination by Cilliers, De Villiers said that after endorsing the two-page agreement, he told Ronan to redraft the first page because it contained defamatory and critical remarks about certain named directors. He added that he had also told Ronan it would not be good for his career if a document containing criticisms of specific individuals went on file.

☐ To Page 2

De Villiers

BDay 20/1/92

(58)

☐ From Page 1

Cilliers questioned De Villiers at length on when Ronan had redrafted the first page. The witness said he could not remember.

De Villiers initially said he did not see the final draft of the first page of the agreement which is now an exhibit before the court.

Cilliers asked him whether, in the light of Ronan's "wild, irresponsible" manner in writing the first draft, he would have allowed him to rewrite the page without checking it himself.

De Villiers replied that he would have expected Ronan to come back to him with the final draft. He then told the court he could remember seeing the final draft, but could not recall when. De Villiers added that Ronan had been to see him in connection with the letter at least once before he [illegible]

Cilliers asked De Villiers when he had first become aware of the allegation that the document had been falsified. He said he had first known of the allegation when he read a Business Day report of the trial last Thursday.

Cilliers had put the allegation towards the end of his cross-examination of Ronan on Wednesday. Ronan had offered no explanation of how the agreement had appeared on a company letterhead which had not existed on March 2; nor did he mention the redrafting of the first page.

De Villiers said when he read the report he had felt a "degree of annoyance" because Ronan had not explained what had happened. He told the court he had decided Ronan had been confused after a long day in court and had looked forward to testifying himself and "getting the truth straight".

Estate agents feel pinch

STAR 20/1/92

By Frank Jeans (58)

An estate agent commission war appears to be developing amid the comparatively poor trading conditions in residential property.

Desperate to get business, smaller agencies are reported to be cutting their commission below the seven percent recommended by the Institute of Estate Agents.

The difficult market, too, has forced some go-it-alone agents, who left major groups, to return to the fold as they feel the crunch of increasing overheads.

Scott McRae, MD of the Camdon's Group, says: "It is important to maintain commission levels, even in a depressed market, and we believe the recommended tariff is commensurate with top service.

"In today's world, people get only what they pay for."

Barnard O'Riain, MD of Seeff O'Riain Real Estate, says the national real estate companies have cash reserves to act as a buffer in adverse market conditions.

"We can weather the storm and choose to maintain commission levels and still provide the service expected in the market today."

He believes there could be commission-cutting at the top end of the residential market, which is feeling the effect of the downturn more severely than other sectors.

Owners of these top properties, in many instances, are not achieving the R1 million asking prices so easily in present conditions, and Mr O'Riain sees sellers demanding a cut in commission as inducement to accept lower offers.

Piet Hamman, MD of the De Huizemark-Home Buyers Circle network, advises agents to tighten up on all expenditure and warns that poor financial control in the present economic climate will inevitably lead to insolvencies.

"At present, it is virtually impossible for a single agent to be successful in administering and selling at the same time," he says.

"I know of 10 agents who have started their own businesses in the past few months and have been forced to return to employment in larger companies."

starts more than 5% adrift of last year's level

Downward pressure on rates continues

BD 20/1/92 (58)

THE MONEY MARKETS

by Sheridan Connolly

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Agents told economy will come right soon

STAR 21/1/92 (58)

A fillip for the property market has come from political observer Harald Pakendorf, who counters fears of a slump in house prices in the wake of future black dominance in government.

At a meeting of estate agents of the Seeff O'Riain group, Mr Pakendorf, a former editor of the Vaderland, said: "The economy will come right and by March, ANC president Nelson Mandela will put forward a totally different economic policy."

Quoting from a speech by Mr Mandela in America, Mr Pakendorf said the ANC never doubted the importance of private enterprise as the engine of economic growth.

He also sees American moves for huge reinvestment in South Africa.

Comparing the Namibia scenario with South Africa's transitional period, he said the aftermath of independence there had resulted in a buoyant property market.

Bearnard O'Riain, managing director of Seeff O'Riain, is equally confident about prospects for the residential market nationally.

Bifsa pleads for housing strategy

STAR 21/1/92

Property & Construction

FRANK JEANS

A national housing strategy must be implemented now, says the Building Industries Federation (Bifsa).

In its Building Review, compiled by economist Charles Martin, Bifsa says "House building remains in the doldrums with the lower income market the most seriously affected.

Imperative

"Now, more than ever before, it has become critically imperative that an equitable and workable housing policy and strategy be urgently implemented.

"Allied to this, is the introduction of an effective system of local government to administer service and housing related matters."

The federation expects improvement in the middle to upper income housing market only towards the latter half of this year.

Commenting on the "fierce tendering environment" within the industry at present, it says a further significant deterioration in business conditions generally is not expected in the short term.

"Activity levels will rather exhibit a general sideways movement over the next six to 12 months."

Looking further ahead, Bifsa sees the building cycle reaching its lower turning point during the second half of this year. A more sustainable demand for work is expected in 1993 and 1994.

Rise in building costs, which have shown a sideways movement during the year, are expected to decelerate marginally this year.

Southern among top performers

Finance Staff 58

The Southern Equity Fund recorded an outstanding 42 percent return on lump sum investments for the 12 months ended December 31, placing it among the top performers for 1991. STAR 21/1/92

The second fund in the Southern's unit trust stable, the Southern Mining Fund, achieved a return of 15,5 percent in the specialist mining fund sector.

The market value of the assets under management in the two funds is now R118 million.

New shares introduced in the Equity Fund were Amcoal, Charter, Liberty Life, AVI, Tiger Oats, Consol and Mobile.

SA on the verge of lengthy upswing, says Boland Bank

B/Day 2/1/92 Own Correspondent (58)

CAPE TOWN — A substantial and lengthy economic upswing will start this year — and it is time for South Africans to be positive, says Boland Bank chief economist Louis Fourie.

"The current business sentiment in SA seems to be quite negative and at times very vulnerable," says Fourie in the Economic Review.

"An objective evaluation of economic prospects for 1992 does, however, show that the day is breaking and the average South African is on the verge of better times."

Fourie points out that a combination of factors, including low consumer spending over the Christmas period, have caused the pessimistic mood.

"This picture was clouded by statistical confirmation that the lacklustre performance of important world economies is due to continue for some time.

"Moreover, domestic socio-political hiccoughs and an increasing crime rate created an air of uncertainty not conducive to business confidence.

"Without negating the relevance of these indicators it is important that South Africans start viewing the economy in a more positive light and take cognisance of the changing environment and opportunities offered."

Fourie says SA's readmission to "the international economic playground" will increasingly rub off favourably on the domestic economy.

Southern fund performs well

B/Day 21/1/92 SEAN VAN ZYL (58)

SOUTHERN Life's general equity unit trust, Southern Equity Fund, has disclosed a total return of 42% for the 12 months ended December, making the fund one of the top three performers for the year.

The assurer's specialist mining unit trust, Southern Mining Fund, also achieved a total return of 15,5% for the 12 months, a Southern statement yesterday said.

Southern's GM investments Carel de Ridder was confident about the future of the local economy and stock market.

He said shares should perform "reasonably well" during 1992 as interest rates decline and earnings rise.

However, De Ridder said fund managers would have to adopt a careful approach to selecting investments.

The general equity fund's total assets, based on market value, climbed to R95m to end December from R31m. The fund acquired new holdings in Amcoal, Charter, Liberty Life, AVI, Tiger Oats, Consol and Mobile during the last quarter. It also sold part of its interests in Western Deep, Gencor, Apex, Da Gama, Premier, and Iscor.

Allied/Absa acquitted in dismissal case

SUSAN RUSSELL

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A JOHANNESBURG magistrate found yesterday that either former Allied Group MD Kevin de Villiers or dismissed senior executive Patrick Ronan had lied about a letter purporting to be a contract giving Ronan 12 months' notice.

Magistrate R G le Roux said the credibility of De Villiers and Ronan as State witnesses was "of such poor quality that no reasonable man could accept it".

The magistrate made this finding when he acquitted Allied Group Ltd/Absa, represented by Allied Group MD Bob Aldworth, of contravening the Basic Conditions of Employment Act.

The charge against the banking group arose from Ronan's claim that he was entitled to 12 months' notice in terms of an agreement purportedly signed by De Villiers on March 2 1990.

Ronan's services were terminated in July last year shortly after the UBS won its battle with FNB for control of Allied and the subsequent merger of United, Volkskas, Allied and parts of Sage to form Amalgamated Banks of SA (Absa).

Ronan testified that he wrote a letter on March 1, 1990, requesting a 12-month notice period as "protection" because he had felt threatened when his investigation into the Sage-Allied relationship had revealed certain alleged irregularities.

He told the court De Villiers had agreed, and endorsed the letter on March 2.

He was confronted under cross-examination, however, by Absa counsel Fanie Cilliers SC, with the allegation that the letter was written on an Allied letterhead which could not have existed on March 2

☐ To Page 2

Allied/Absa

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☐ From Page 1

because it contained the names of directors who were elected only on March 26. Ronan was unable to explain this.

De Villiers then testified that although he signed page two of the letter on March 2, the first page had been redrafted at his suggestion because it contained defamatory remarks about certain directors.

Cilliers applied for his client's acquittal at the conclusion of the State case yesterday. He described De Villiers' and Ronan's different versions as "mutually destructive. There is no credible version before your worship as to when the document came into existence."

If the document was executed after De Villiers left Allied last June, Cilliers said, it was not backdated, but worthless. The State had not proved that the document was executed by De Villiers at the time it was purported to have been.

"It might have been executed by a person who no longer had the authority to do so," he submitted.

The State did not oppose Cilliers' application, conceding there had been contradictions between the two men's versions.

Ronan had also admitted that the company directors and those involved in his dismissal had at no stage been aware of the 12-month contract signed by De Villiers.

Acquitting Absa, the magistrate said Ronan could give no explanation for the letterhead and the court could not accept this had been an oversight.

"The court finds that either Ronan or De Villiers must have lied. It is not for the court to decide who is telling the truth or who is lying," the magistrate said.

Service charge on unit trusts to be increased

BID ay 22/11/92 LINDA ENSOR (58)

CAPE TOWN — The Financial Services Board has approved a 50% increase in the maximum annual service charge which can be imposed by unit trust management companies, from 0,5% to 0,75% of the total market value of a fund's assets.

The board's deputy registrar Gad Ariovich confirmed the increase yesterday.

The annual service charge, a percentage of which is levied monthly, is imposed in addition to a 5% initial charge which covers marketing and distribution expenses and which will remain unchanged.

While welcoming the announcement, industry leaders expressed disappointment yesterday that the ceiling was not raised at least to the 1% requested by the Association of Unit Trusts.

They said the service charge covered the escalating costs of administration, portfolio management and regular reporting to clients and was not sufficient to cover costly investments in technology.

"There is a strong case for a higher fee but the industry accepts that a too rapid adjustment could be regarded as inequitable," association chairman Clive Turner said. The service charge had been held at 0,5% a year since the industry's inception in 1965 and even at the new level was well below the average in any other country.

Old Mutual unit trust manager Peter de Beyer said 0,75% would not give the industry the flexibility and financial base it required. He had hoped the ceiling would be higher so that there could be competition beneath that level between management companies over fees charged.

De Beyer felt all funds would be financially impelled to move to the maximum 0,75% fee immediately. He favoured no ceiling on condition that management companies were required to disclose their service charges to unitholders.

He said the low level at which the service charge had originally been set was mainly responsible for the slow growth in the number of management companies. He felt the increase was correcting this historical imbalance.

No relief on mortgage rates

STAR 22/1/92

58

By Magnus Heystek

Financial institutions are not contemplating any pre-emptive drop in mortgage rates to revive the residential property market.

"I cannot foresee a drop in interest rates — and hence mortgage rates — before sometime in March this year," Jimmy McKenzie, senior general manager at First National bank, said yesterday.

"The prime rate, as well as the mortgage rate, will definitely be lowered sometime this quarter," said Mike Volsoo, MD of Standard Bank, adding that the factors influencing the prime overdraft rate also influenced the mortgage rate.

They were approached for comment after news that the three largest providers of mortgage finance in the UK cut mortgage rates to boost the badly battered residential market.

In addition, the UK government last Wednesday abolished stamp duty on all house purchases under £250 000.

The UK residential market has been particularly hard-hit by depressed economic conditions, with more than 80 000 houses repossessed last year.

There has been no letup in repossessions this year, despite frantic efforts by the authorities to boost consumer confidence.

The UK move follows similar ones in the US, where interest rates have been cut to historic lows in an effort to revive not only the residential property market, but consumer expenditure as well.

The SA property market has held up well, despite recessionary conditions.

Mr McKenzie said the demand for mortgage finance was still strong.

Applications averaged about R180 million amonth, with a billion rand worth of loans already approved.

This would push up FNB's home loan mortgage book to about R6 billion, he said.

Mr Vosloo said that although the local property market was static, the competition for business was tough.

"Different financial institutions have different approaches to gaining market share, which makes it a very competitive business.

"But there is no doubt that the banks have been gaining market share at the expense of the former building societies," he said.

Syfrets buys stake in company

B/Day 22/1/92 (58)

SEAN VAN ZYL

FINANCIAL services group Syfrets had acquired a 50% stake in an Isle of Man registered company — Associated Trust Company (ATC) — from sister-company UAL, Syfrets international manager Ian Hamilton announced yesterday.

Hamilton said the deal was settled by the injection of Syfrets' offshore interests into ATC. UAL holds the remaining 50% of ATC. As a result, Syfrets' existing offshore operations, such as its SG International and Disa unit trust funds, have been consolidated under ATC for administrative purposes, he noted.

"The move made a lot of sense as we have rationalised our administrative costs and consolidated our interests under one umbrella."

The deal also resulted in a balanced mix of corporate and individual business for the enlarged international arm, he added. Hamilton said UAL was particularly strong in the corporate sector while Syfrets would be able to introduce new private clients to ATC.

Hamilton noted the offshore company's primary business would be to administer the investments of offshore clients and SA residents with offshore funds.

Santam 'set to produce dividend growth of 15c'

BDay 22/11/92

(58)

LINDA ENSOR

CAPE TOWN — Santam was on track to produce a dividend growth of at least 15c, or 45,5%, to 48c (33c) in the current financial year to end-September, outgoing MD Oosie Oosthuizen said in an interview after the short-term insurer's AGM yesterday.

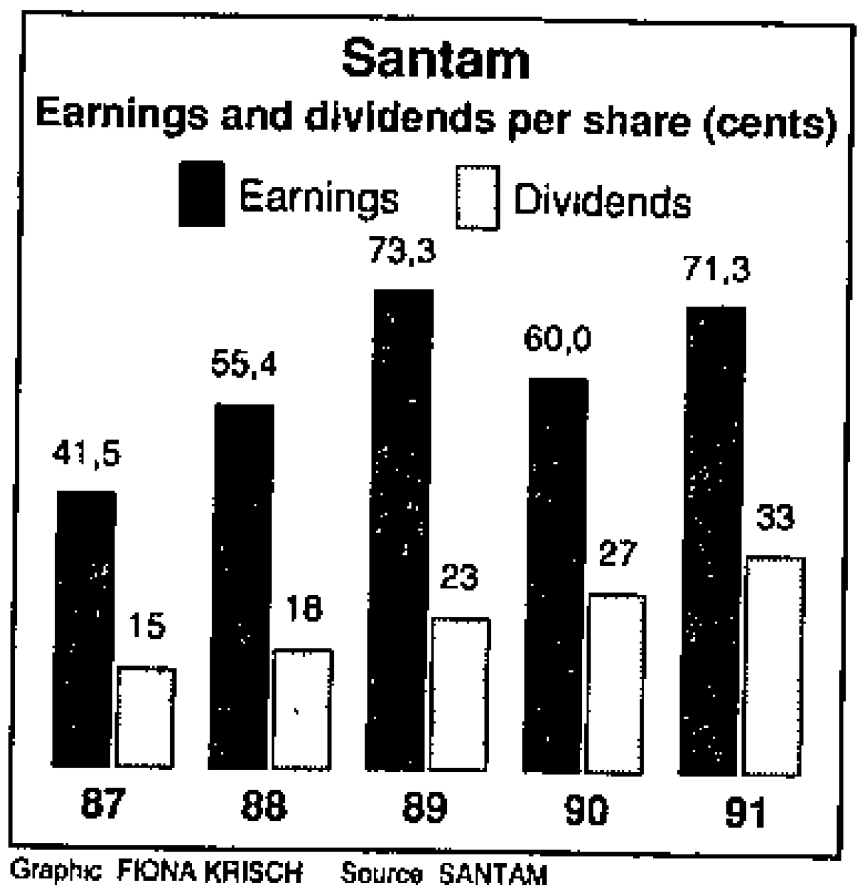
If last year's 2,16 times cover is maintained, this means earnings will grow by at least 45% to 103,7c (71,3c) a share.

In the annual report, Oosthuizen said Santam aimed to achieve a growth in gross premium income of about 20% this year, which after inflation would represent a real rate of growth of about 4-5%. In the last financial year, gross premium income rose 22% to R1,04bn.

Oosthuizen, who retires at the end of March, said that up to end-December it appeared as if there had been an improvement in the loss ratios (claims to premiums) and if this trend continued there would be no further need for a premium increase before October or November.

The improvement, he added, had been brought about by the 1991 premium increases, on average between 20-25% including VAT. Oosthuizen believed the industry generally had benefited from premium increases last year and apart from adjusting for inflation, did not anticipate high increases this year.

He said it seemed car thefts were levelling off, although at a very high level. However, the incidence of burglaries and theft was still very worrying. There had been a marked increase in the value of claims.



Graphic FIONA KRISCH Source SANTAM

Santam's telephone sales operation Teleplex, which had cost about R4-5m to get off the ground, was in a growth phase and was arriving at the point where it was generating a return on the investment.

Oosthuizen expressed dissatisfaction with the low level of the Santam share price which at yesterday's close is well below the net asset value of 564,5c at the last year end.

He said short term insurance companies had historically been given a low rating by the market because of their short term nature, but pointed out that the share price only paid for the equity portion of Santam's investment portfolio, quite apart from its other assets and the growth it generated itself. The investment income could be relied on to provide dividend and asset growth, he said.

At end-September Santam had investment assets of R817m which during the year had generated a pre-tax investment income of R76,5m — a 13,7% rise over the previous year. Cash assets represented 20,1% of the portfolio, fixed interest bearing assets 18,1%, listed shares 33,1%, unlisted shares 1,1% and redeemable preference shares 27%.

Many analysts do not believe the stock market has the potential this year to match last year's performance, but Oosthuizen said while asset value growth might be affected by the slowdown, he did not expect it to affect the income growth of the portfolio. He was confident that growth in investment income would be maintained and that the ratio of premium to investment income would remain about the same.

Santam actively manages its own investment portfolio concentrating on blue chips and quality second liners. Its strategy is to build up the equity part of its portfolio from its current 35% to over 40%. Insurance companies are legally prohibited from investing more than 50% of their total liabilities in ordinary shares.

After his retirement Oosthuizen will remain a member of the board of directors. Senior marketing GM Jurie Geldenhuys will take over after his departure.

Local banks urged to expand into Europe

JONO WATERS (58)

SA BANKS should become more international and open branches or subsidiaries in Europe, Reserve Bank Governor Chris Stals said at a Chubb Group function for a delegation of Polish bankers yesterday.

Stals said the changes SA was facing were as formidable as Poland's.

Local banks had been presented with great challenges since they had to reintegrate internationally and in southern Africa, he said. BDay 22/1/92

Existing banking infrastructure provided the country with an excellent opportunity to extend into Africa.

Stals said the Reserve Bank was interested in the banking structures of Eastern European countries which had provided for the needs of developing countries.

He welcomed contact with central banks throughout the world.

Poland has about 100 banks, 80 of them private and the other 20 state-owned or partly state-owned.

Stals said he believed trade with Poland would improve, but said businessmen should be modest in their expectations and joked that the bankers were visiting the right people — exporters rather than importers.

In reply, Maciej Dobrzyniecki the commercial director of manufacturing company Iokata, which builds banks, said the visit would bring about other business opportunities.

Property syndications thrive

BDay 22/1/92

(58)

PROPERTY syndications are flourishing despite mixed reactions to their financial viability and warnings about the syndicators' profit claims.

The Metboard property trust group recently announced one of its largest property syndications, an R8,15m development in the eastern Transvaal town of Ermelo

A total of 815 share blocks are available at the centre at R10 000 a unit. Major tenants are Santam Bank, Spar, Clicks, Lubners and Geen and Richards.

The five tenants account for about 95% of rental income. "With such a large proportion of the property occupied by such reliable and stable tenants, this is a secure investment that is a hedge against inflation," says investment marketing manager Greg Nowitz.

Metboard investment experts are predicting a 136% cumulative return to investors over the next five years, made up of 68,6% return on income growth and a 67,5% return on capital growth.

Metboard, a wholly-owned subsidiary of Investec, has 21 syndicated properties worth R130m.

In another development, Investdev is to develop 31 townhouses at Naturena, south of Johannesburg. The units will range from R115 000 to R130 000 and, to make the investment more appealing, Investdev has devised a short-term syndication.

Investors, it is claimed, will receive a return of 51% in 15 months.

The syndication calls for a maximum of 50 investors who will invest a minimum of R25 891, with R1,294m required in total from the syndicate. "The development will be owned by a company that will have the individual investors as shareholders," says Investdev's Sean Waters.

Once subscribed, the townhouse units will be sold off-plan and on completion the company will be dissolved and investors paid out.

However, profit is based on the units selling at the determined price and within the required time.

Town councillor Theuns Oosthuyzen says: "I am in full support of the project, which fills a niche in the market. Firstly, it provides affordable housing and, secondly, townhouse complexes usually provide more security."

In addition, he believes the influx of people attracted by the development will make it easier to persuade the city council to spend more on upgrading community facilities.

Garvie appointed deputy chairman at Stauch Vorster

DERRIK Garvie has been appointed to the new post of deputy chairman at Stauch Vorster.

Garvie has worked for the firm of architects for 27 years and recently moved to Johannesburg from the Durban office.

"My main focus is to improve our team architecture approach," he said.

"This means involving the client in brainstorming sessions where he is involved and identifies with the process, and the solution."

BDay 22/1/92

Management would also be more involved in the projects — from the conceptual to the final stage.

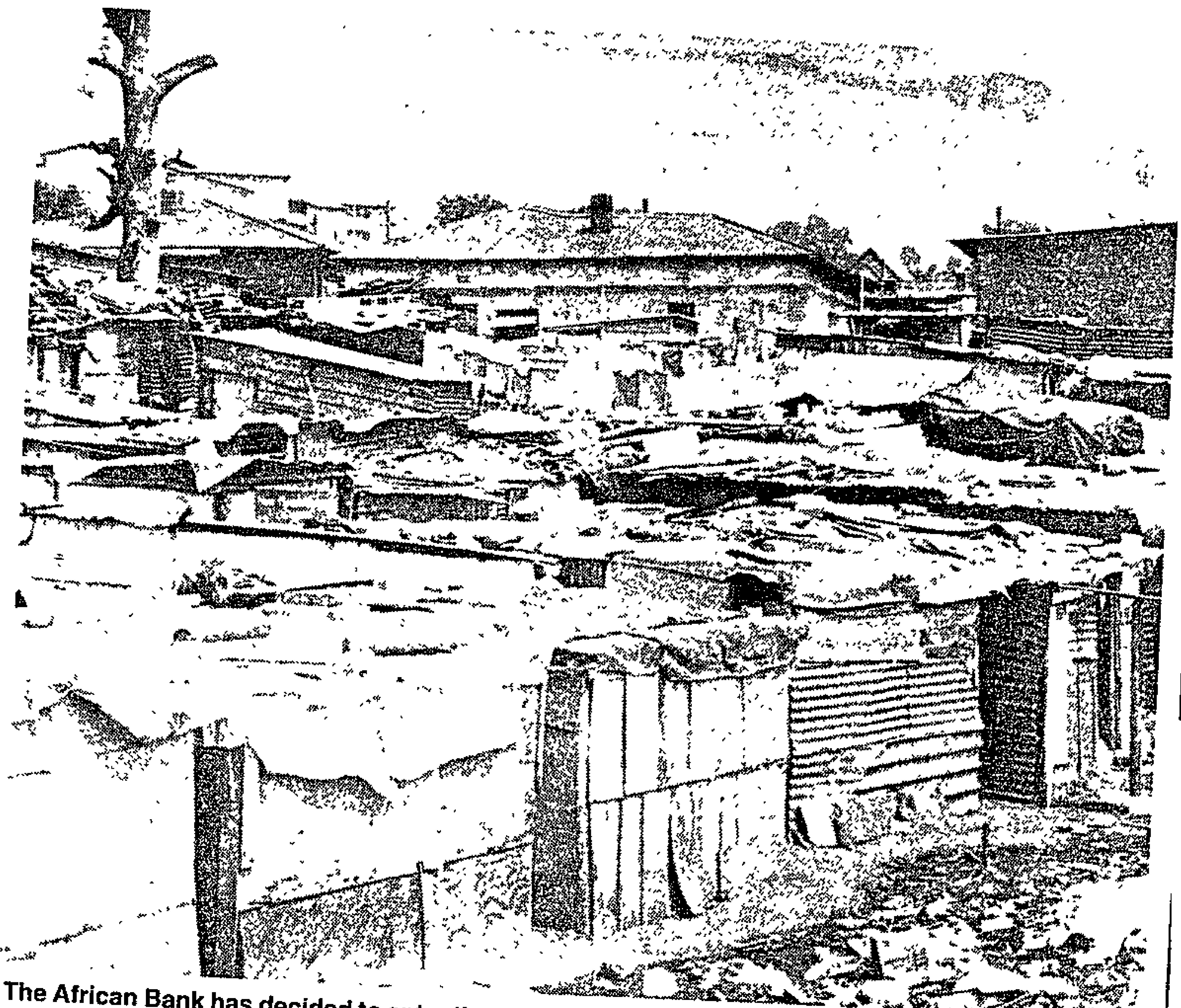
Projects where this approach had worked, were the Development Bank building in Midrand, the Rand Water Board building, Norwhich Life in Cape Town and the the President Hotel in Sea Point, he said.

Garvie has been involved in the design of a number of buildings that have helped develop Stauch Vorster's reputation.

"The Johannesburg office has grown steadily since it was established in 1960 and the need for additional leadership skills was identified," said chairman Robin Vorster.

"Garvie's particular design skills, diverse experience and clear understanding of the needs of property investors and institutions will be used to the full in the Johannesburg business environment, and will complement those of the existing team."

Garvie said Johannesburg was vibrant and exciting from an architectural point of view, and offered opportunities not available in Durban.



The African Bank has decided to enter the property market in a bid to alleviate the housing crisis in the black community.

African Bank's new homes plan

58

Durban 23/1/92

By JOSHUA RABOROKO

THE African Bank has decided to enter the property market to help alleviate the housing crisis.

Chief executive officer Mr Jack Theron said the bank was concerned about the housing shortage and it wanted to help poor communities to acquire houses.

The bank, through its Homesavers' Plan, would grant loans to applicants in the normal way in which financial institutions lend money to those needing it.

He said: "We will look at every case and consider its merits and demerits. It is our aim to help poor families find a roof over their heads!

"Most financial institutions have burnt their fingers in the property market by lending money to people who at a later stage failed to pay their bonds. We are prepared to take the risk."

The bank would also look at violence, unrest and other problems that might hamstring the building of houses for blacks.

Theron said the past year had witnessed the establishment of a rising number of squatter settlements throughout the country.

Research has shown that blacks who are unable to find a formal house live in the backyards of friends' and relatives' houses or in the servants' quarters of white homes, or in hostels, compounds, or shacks.

It has also been shown that formal black houses have an average of 13 people living in them. The majority of formal houses are rented.

Shacks are more typically a home to black people than are formal houses, according to research.

In the PWV region for example, there are 412 000 formal houses, 422 000 backyard shacks, and 635 000 shacks on vacant land.

Theron said: "This clearly depicts the worsening problems of poverty and homelessness in the black community.

"Although important efforts were made by both the Government and the private sector, it appears as if these efforts up to now merely represent a drop in the ocean.

"The ultimate solution to this problem lies not so much in charity but more in the provision of employment with adequate remuneration, to enable families and individuals to build or otherwise provide their own accommodation," he said.

Theron said the bank was committed to the economic empowerment of black people and to mobilising and recycling the black community's savings by making them available for improving their economic potential.

Blacks take giant step in insurance

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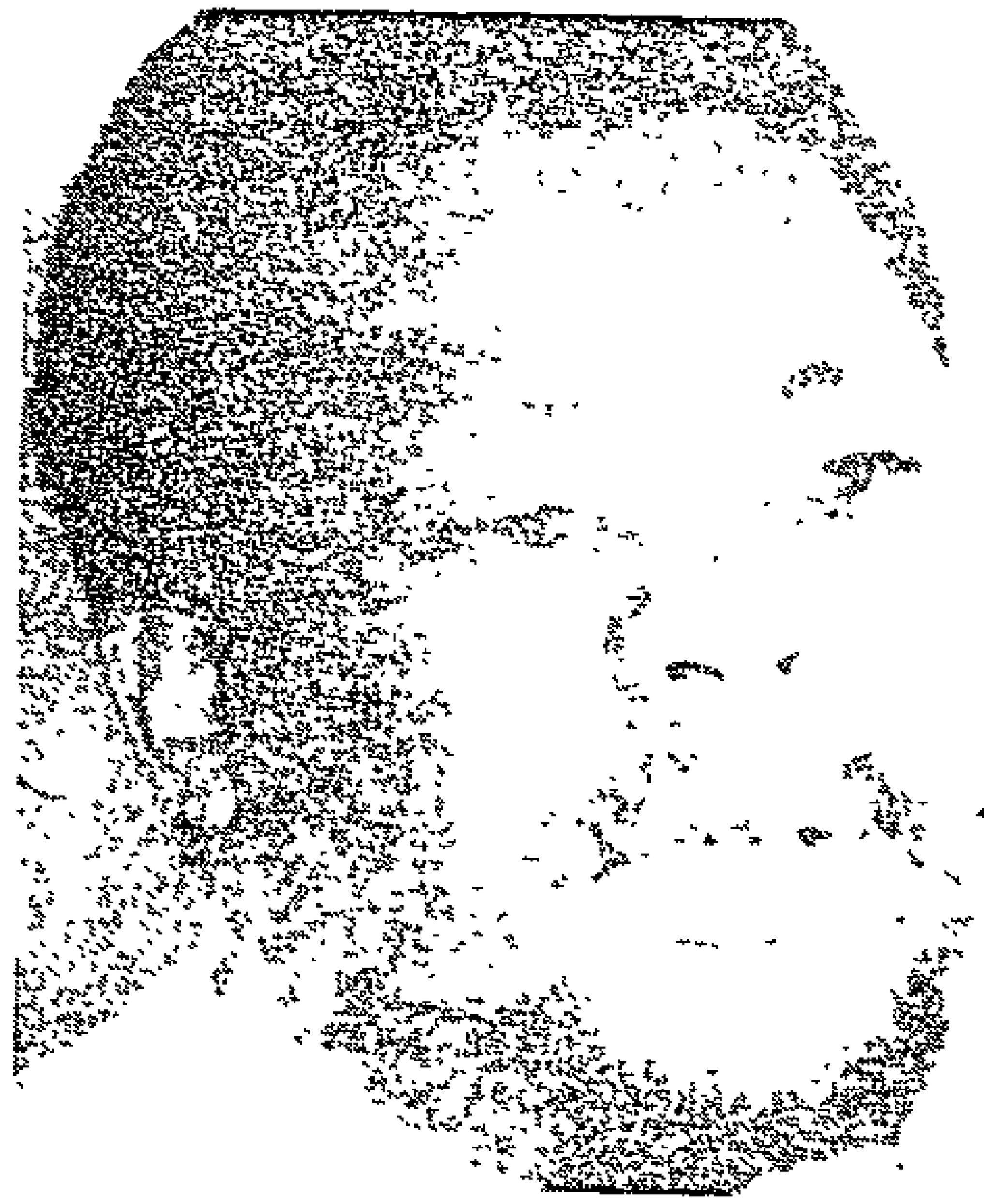
Sowetan 23/1/92.



KEHLA MTHEMBU

By JOSHUA RABOROKO

PLANS are at an advanced stage for the Foundation of African Business and Consumer Services and one of its satellites, insurance brokers Afsure, to launch probably the first major black insurance company in South Africa.

Backed by Futurebank and two insurance companies, Aegis and Eagle Insurance, the move has been described as a giant step towards black economic empowerment.

Fabcos public affairs manager Mr Mike Ntlatleng confirmed this week that moves were afoot for the company's creation.

He would not elaborate because "we are still negotiating with the parties concerned. It will be premature to give details at this stage".

It was expected that the company would become a reality during this year, he said.

Afsure's managing director Mr Kehla Mthembu also confirmed the move and said: "Afsure and Fabcos have acquired the shares with Business and Personnel Insurance to establish a major insurance company.

"At this stage we are still talking to interested parties on how the company will be restructured. The company has to be approved by the Financial Services Board, which has been kept informed of developments."

Eagles deputy managing director Mr Peter Moss said his company and Aegis were holding talks with Fabcos and Futurebank to form the first black-controlled insurance company.

Both Eagle and Aegis would have 24 percent control while the rest of the shares would be controlled by Fabcos and Futurebank.

They have been included because of their experience.

Both insurances have strong black market connections and between them handle most of the black taxi insurance business, Moss said.

He said the vehicle for the establishment of the company will be BPI, which would be the base to train and educate staff on the insurance market.

He regarded the move as one of the first steps towards black economic empowerment and added: "It will be exciting at this time in the history of South Africa to have a black-controlled insurance company."

He estimated that the whole project would involve a capital of R4 million, but no finality had been reached as "we are still talking. The company would be launched this year".

BPI said arrangements had not been finalised. The issue was at this stage "sensitive".

It is understood that BCE's contribution will be mainly in the specialised areas of construction and electronic underwriting.

Republic gives Absa Bank top rating

B/Day 23/1/92 (58)

SHARON WOOD

ABSA Bank has been given the thumbs-up by Republic Ratings — scoring a top risk rating for its unsecured short-term debt commitments.

Republic Ratings, an independent private sector body which assesses risk ratings of both corporates and banks, yesterday announced that the A1+ rating achieved by Absa Bank was the highest possible rating that could be accorded to short-term debt instruments.

It implied Absa had an extremely strong capacity for timely repayment of principal and interest on its short-term debt.

Profitability of Absa compared favourably with other major banks and this would improve over the medium-term when the cost savings from the current rationalisation programme materialised.

Republic Ratings considered the quality of the bank's assets as good because the majority of its advances were in residential mortgages — traditionally low risk assets.

Republic Ratings director Leon Claasen said: "This may change in the near future. Maintaining the quality of its assets is a key factor in maintaining and improving profitability in the short-term."

Absa's relatively stable funding base with a large retail component had also contributed to the rating.

"Its funding book is fairly long with approximately 20% of deposits maturing over the long term.

"This policy may impede profitability with a lowering of interest rates but adds to the stability of the funding base," Claasen said.

Debt ratings of banks were an important step in the development of a more sophisticated financial system, he added.

"The integration of world financial markets caused formal debt ratings to gain prominence internationally and ratings are regarded as essential to debt issuers contemplating borrowing or establishing dealing lines in the international financial markets," Claasen said.

Changes sought for banks Act

(58)

CAPE TOWN — Finance Minister Barend du Plessis has asked Parliament to raise the thresholds for the official approval of increased shareholdings in deposit-taking institutions. BDay 23/1/92

Du Plessis said in a Bill to amend the Deposit-Taking Institutions Act of 1990 that the original thresholds were "unrealistically low".

He proposed that the initial level at which approval of the registrar of deposit-taking institutions was required should be raised from 10% of an institution's shares to 15% and the second threshold from 17,5% to 24%.

The threshold for approval by the Finance Minister would go up from 30% to 49% and buyers should obtain the Minister's approval again to raise holdings above 74%.

The Bill also proposes changing the provision requiring the full board of directors to approve every large exposure by a deposit-taking institution. It provides for a credit committee appointed by the full board specifically to vet large exposures.

Du Plessis proposed that the definition of deposits should be amended to clearly exclude contributions to "registered friendly societies, registered medical schemes and bona fide sickness, accident or unemployment benefit funds".

The Bill also clarifies the role of money brokers by including them in the definition of the business of deposit-taking institutions on condition that such an institution is always the borrower in the relevant money-lending transaction. — Reuter.

Kanhym, Fedfood set to merge

JABULANI SIKHAKHANE

THE merger of food groups Kanhym and Fedfood would be implemented in May, Kanhym executive chairman and CE of Fedfood Dirk Jacobs said yesterday.

The merged food group would have turnover of more than R2,2bn and total assets exceeding R1,1bn. B/Day 23/1/92

Jacobs said a merchant bank would be commissioned to evaluate the two groups after the publication of Fedfood's results for the year to March and Kanhym's results for the six months to February.

He added that the merger of the two groups would be done on the the basis that there was no dilution of earnings for either party. Analysts say the merger will involve a share swap and a cash alternative.

After approval by shareholders of both companies. the merger would be implemented by May, Jacobs said.

He said that after the rationalisation of the head-office structures of the two groups, which would save about R6m in overheads a year, there were no immediate plans to rationalise operations within the merged entity.

However, market sources said packaging group Holdains, which is controlled by Malbak, was interested in Fedfood's packaging operation, Quix Packaging.

Quix Packaging is a producer of packaging material, mainly for Fedfood's snack division Simba, which sells over 640-million packets of snacks a year.

Govt pension funds may buy IDC's Sasol rights

B/Day 23/1/92

JABULANI SIKHAKHANE

ANALYSTS expect the Industrial Development Corporation (IDC) to sell its rights from Sasol's R1bn rights offer to state pension funds.

The IDC, which sold 10% of Sasol shares to state pension funds for about R950m last year, holds 20% of Sasol's equity. Selling its rights in the planned Sasol rights issue would net the IDC about R200m.

Sasol announced this week that it will proceed with a rights offer of convertible debentures to raise funds to meet its cash-flow requirements and be in a position to promote future business opportunities of subsidiaries.

An analyst said yesterday that the IDC was most likely to sell its rights to the government pension funds.

He added that since pension funds do not pay tax, the debenture issue would be very attractive for the pension funds since it offered a "tax-free investment".

"Government pension funds will get good income from the debentures. Also the debentures are attractive since they convert into ordinary shares at some stage."

IDC senior GM Malcolm Macdonald said that no decision had been made on the Sasol rights issue, adding that the matter would be tabled at the next board meeting.

Regarding the sale of other IDC share investments, including the remaining 20% of Sasol, a 16% stake in Iscor and smaller ones in Sappi and Sentrachem, Macdonald said that at present the IDC had generated substantial amounts of capital and these would take some time to invest.

Depending on the IDC's funding requirements it would consider the best way to sell these share investments. Last year's deal with government pension funds had been done without disturbing the market for Sasol shares, Macdonald said.

On the remaining Sasol stake, Macdonald said that it was unlikely that any one institution including the state pension funds would increase their exposure to Sasol significantly.

Macdonald would not discount a possibility of foreign investors buying some of the IDC's share investments.

Most of the IDC's funding requirements will arise from its R10bn investment programme in projects worth about R30bn over the next five years.

Life assurance market 'to stay difficult'

B/Day 23/1/92

LINDA ENSOR

CAPE TOWN — The market for new life assurance business would remain difficult in 1992 as it would take time for consumers to benefit from the economic upswing, said Metropolitan Life chairman Willem Pretorius in the company's annual report.

However, he expected premium income and dividends to continue to grow.

The unfavourable economic climate last year was apparent in the high number of policy surrenders which rose to 12,1% from 11,2% of premium income.

Metropolitan's Dynamic Life range of products accounted for more than 90% of premiums for new individual business sold during the year to end-September. The products are aimed at professionals, civil servants and people in protective services.

About 31% of total premium income came from group life, provident and pension fund business. Recurring premium income rose 25% to R650m and investment income by 16% to R317m.

Highlights of the year were the rights issue of 22,4-million shares at 805c a share which raised about R186m and the purchase of a 17% stake in African Bank.

By William Wells and Jack Lindstrom

Reserve Bank sets out new deal for stokvels

STAR 23/1/92

58

By Sven Lünsche

The Reserve Bank is considering the creation of a legal framework to accommodate informal financial arrangements, such as stokvels.

Such a framework, the Bank believes, could offer a solution to the lack of financial services "for the many South Africans who are excluded from the formal sector".

The proposals were presented yesterday to a conference on "The role of financial markets in a changing SA" by Reserve Bank researcher Dr Nico Marais.

Dr Marais proposed the establishment of a working committee, representative of all interested parties, to draft realistic policies for the development of informal finance.

He said that stokvels, of which there are an estimated 800 000, together with credit unions, mutual thrift organisations and friendly societies, offered a solution to the lack of financial services for broader communities.

These informal arrangements could be upgraded and co-ordinated with existing formal arrangements by creating a legal framework through a proposed Co-operative Banks Act.

Such an Act would "provide for self-regulatory organisations and accommodate informal and more formal financial arrangements".

Legislation

"Much would be achieved if all stokvels could belong to a single self-regulatory body, which, under the proposed Act, could work in consultation with the Registrar of Banks," Dr Marais said.

He said legislation should only be enacted which overcame the existing problems of informal finance, namely the inability to transfer funds over long distances, exploitation through formal excessive interest rates and the lack of start-up working capital.

"The larger the number of members belonging to stokvels, the weaker the self-regulatory bond between them would be, and the stronger the rationale for additional measures to ensure prudence."

Dr Marais said the proposed Act should hold tangible advantages for informal institutions by providing them with the means to expand businesss beyond their traditional barriers, while enhancing proper risk management.

Furthermore, the Act should achieve a more workable relationship with formal financial institutions, which could become more actively involved in the provision of finance for the disadvantaged.

In his presentation to the conference, Standard Bank economist Nico Czypionka said that banks and other financial institutions had limits to "how far downmarket they can extend their operations".

He therefore proposed the establishment of three new specialist banking institutions catering for the poorer communities:

- A specialist Rural Development Bank using the basic structures of the existing Land Bank and funded jointly by the state and the private sector.
- A Small Business Bank, structured and financed on a similar basis, to cater for small-scale lending to the informal sector in urban areas. The Small Business Development Corporation could form the nucleus of such a bank.
- A National Building Society to generate funds for informal and sub-economic housing.

Such an institution could grow out of a partnership of the financial services sector, companies and the state.

Mr Czypionka said, however, that a central bank, furnished with legal independence, should be the core of SA's future banking system.

Such a bank should have sole control over managing the money supply through appropriate interest rate policies guided by a free and flexible foreign exchange market, he said.

Natrust's investments soar 52%

STAR 24/11/92

(58)

Natrust, the Senbank-managed investment trust which was listed last year, increased the market value of its investments by 52 percent to R106,54 million from R70,46 million in the year ended December 1991.

Net asset value per share calculated on the market value of investments was 394c (259c) at the year-end.

The dividend has been increased by 19,6 percent to 6,7c (5,6c), compared with the compound growth of 19 percent over the past five years.

Net profit rose 9 per cent to R2,47 million (R2,27 million) but tax and a one-off extradordinary item (the cost of listing) reduced this to R2,05 million (R2,15 million).

Earnings per share rose by 7,5 percent to 8,4c (7,8c), a shade better than the pre-listing statement projection. — Sapa.

NEWS IN BRIEF

Southern grows

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SOUTHERN Life's pension and provident fund investment vehicle — Southern High Opportunity Portfolio — grew by 37% to R40m for the year ended December, GM investments Shams Pather said yesterday.

Pather noted the fund's performance far outstripped the average inflation rate for the year and the gains achieved by the all-share and all-bond indices. He added the fund, which is available to pension and provident funds, was 66% invested in equities, 25% in money market instruments and 9% in fixed interest investments.

B/Day 24/1/92

Investments up

NATRUST, the Senbank-managed investment trust listed on the JSE last year, increased the market value of its investments by 52% to R106,542m from R70,464m in the year ended December 1991.

This compares with the 31% compound growth rate over the previous five years.

Net asset value per share was 394c (259c) at year end. The dividend was raised to 6,7c from 5,6c.

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A statement from the group said net profit rose to R2,472m from R2,268m, but tax and an extraordinary item reduced this to R2,052m.

Earnings a share rose 7,5% to 8,4c.

B/Day 24/1/92

Sage Life MD makes a surprise move to Fedlife

B/Day 24/11/92 (58)

SEAN VAN ZYL

IN A suprise move, Sage Life MD Morris Bernstein has been appointed MD of Fedsure's life company Fedlife, a statement released yesterday by the assurer said.

Bernstein said his new appointment would be effective from early February. He said the move was not a reflection of any discontent with the Sage group, but that he had been made "a very attractive offer by Fedsure which I would have been crazy to turn down".

Sage chairman Louis Shill said he would resume responsibility for the day-to-day running of the group's life office.

Bernstein was appointed MD of Sage Life in September 1989 after a brief spell in Australia. Previously, he held the position of deputy CE of Southern Life.

● BERNSTEIN

Fedsure CE Arnold Basserabie said recent developments had made it necessary to separate the responsibilities of group CE and Fedlife MD. Basserabie previously handled both positions..

Fedsure recently announced an equity swap deal with the Investec group which essentially resulted in the two groups becoming cross shareholders, with significant stakes in each other. Fedsure also acquired about 30% of the issued share capital of Saambou last year.

As a result of these and other steps taken in financial services, Basserabie said Fedsure had become a diversified financial services group with Fedlife forming its core business. He said Bernstein's appointment would allow him to concentrate on recent developments with Investec and Saambou and look at maximising the synergies between the different groups.

"His appointment will significantly strengthen our executive management team. It will also enable me to concentrate on the strategic positioning of the group and to optimise the benefits arising from our recent strategic alliances."

He said Fedsure also intended to expand its interests abroad, although there were no developments currently in the pipeline.

Money supply growth rate still shrinking

STAR 24/1/92

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The growth rate of money supply is still shrinking.

Figures released by the Reserve Bank yesterday show the preliminary annualised estimate of the increase for the broadly defined M3 in December was 12,42 percent, well down on November's 14,48 percent and the year's peak in October of 15,75 percent.

The sharp drop brings the growth rate well within the targeted range set by the Reserve Bank of 11 to 15 percent.

Unadjusted M3 was R180,4 billion in December (R183 billion in November).

In November, the narrowly defined M1A rise was 21,38 per cent, M1 was 24,17 percent and M2 21,21 percent. — Sapa.

Simon Brand: economist of genius

STAR 24/1/92

(58)

Former head of the Development Bank of Southern Africa, Dr Simon Brand, who died at his Pretoria home last night after fighting cancer for eight months, made a remarkable contribution to economic development in southern Africa.

DR Simon Brand, chairman and chief executive of the Development Bank of Southern Africa until this month, came from humble beginnings: his father worked for the Railways and was an assistant stores supervisor when he retired, while his mother worked in a shop.

The young Simon Brand obtained his Bachelor of Arts degree in agricultural economics at the University of Pretoria in 1959, with a bursary from the Department of Agriculture.

He went on to receive a master's degree from Stanford University in California in 1962. He obtained his doctorate in agricultural science at Pretoria University, where he also lectured.

He served various roles in government and academia and was economic adviser to the Prime Minister's Office during the late 1970s and early 1980s.

Dr Brand held discussions on economic matters with the ANC six months before the organisation was unbanned: in 1989 he and Reserve Bank deputy governor Professor Jan Lombard discussed the economy of a post-apartheid South Africa with the ANC when they met in Switzerland.

The Development Bank was headed by Dr Brand from its inception in June 1983. It was created by the governments of South Africa, Transkei, Ciskei, Bophuthatswana and Venda to provide loan finance, technical assistance and advice for economic development projects that would not require a constant supply of capital.

Loans from the bank were based on sound economic principles with teams around the country evaluating projects and making recommendations to the board.

The board also considered independent assessments where possible before making its decision.

The bank had R1 billion to lend in the 1991/92 financial year which ends in March.

Construction projects are taken on when it is apparent that there are permanent benefits and are carefully monitored.

The largest project the bank is involved with is the provision of R600 million for constructing the infrastructure at the Lesotho Highlands Water Project.

The bank became involved in issues of economic reform as well as looking at the emotive issue of land; looking at ways to redistribute it to the black population without the large-scale nationalisation proposed by some organisations.

Dr Brand also headed a committee to reduce spending in the homelands.

In addition he was chairman of the South African Housing Trust, which provides black housing on a semi-commercial basis.

Towards the end of 1990 in his Housing Trust report, Dr Brand recommended that squatter camps should be recognised as an essential part of any housing scheme, in tandem with more formal housing developments.

Estimates at the time showed there were 4,2 million squatters in the PWV and Durban areas alone.

In the middle of last year Dr Brand accepted that the Development Bank would have to change its structure

He vehemently defended the projects taken on by the bank, saying they would stand up to scrutiny under a new constitutional framework.

Former Finance Minister and President of the Council of Governors of the bank, Owen Horwood, said Dr Brand's death was an "irreplaceable loss".

"Not only was Simon a brilliant scholar and an internationally renowned economist, but he was also at all times and in diverse circles a respected leader.

"Dr Brand remained modest, never wanting to take the credit for his personal achievements ... a man of the highest qualities of charater and an engaging personality."

Dr Brand fought cancer for eight months, resigning as chairman and chief executive of the Development Bank only this month as his condition deteriorated.

Dr Brand was 53 years old. He is survived by his wife Carolina and five children.
— Staff Reporter and Sapa. □

Foreign control of banks may get nod

B/Day 24/1/92 (58)

LESLEY LAMBERT

THE way will be cleared for foreign banks to control SA financial institutions if proposed legislative changes are approved by Parliament this year.

Two separate proposals in the Deposit-Taking Institutions Amendment Bill would make it easier for foreign financial institutions to buy significant, even controlling, shareholdings in local institutions, a Reserve Bank spokesman said yesterday.

If approved, the one proposed amendment would place foreign banks on an equal footing with SA banks by allowing them to buy controlling interests in local banks if the registrar of deposit-taking institutions approves. Under existing legislation they have to establish a public company through which to buy control.

The Reserve Bank was considering an application by a foreign parent to increase its stake in a local subsidiary, the Reserve Bank official said. He would not disclose the identity of either party.

The other amendment will relax the levels at which all investors need official approval to increase their stakes in deposit-taking institutions. At present investors have to get the registrar's approval to increase investments in financial institutions to more than 10%. His approval has to be sought again when additional purchases push investments above 17,5%.

If investors plan to exceed 30%, or 49% in the case of financial institutions, they have to get ministerial approval. Exceptions were made when Sanlam increased its holding in Bankorp to 90% and Old Mutual increased its stake in Nedcor to 53% when the banking groups needed financial support.

To bring the limitations in line with international banking regulations, the Finance Department proposes an increase in the levels to 15%, 24%, 49% and 74%, respectively. If implemented, any pressure on Sanlam and Old Mutual to reduce their stakes in the banking groups might fall away, a banking analyst said.

These amendments could give investors greater flexibility in their investment strategies. They could, for example, enable Absa to complete its rationalisation without falling foul of Act's requirements. An Absa official said yesterday it would be premature to comment.

The Reserve Bank reported recently that foreign banks were showing increased interest in establishing representative offices in SA. The Bank of Taiwan will be one of the first foreign deposit-taking institutions to establish a bank in SA when it starts operations this quarter.

M3 growth drops for third month

SIMON WILLSON

GROWTH in M3, the broad measure of money supply, showed a year-on-year drop for the third consecutive month, easing to 12,4% in the 12 months to December from a revised 14,5% in the year to November.

Figures released last night by the Reserve Bank showed the annual rate of growth in the M3 aggregate, which consists of cash in circulation and all deposits with banks, had slowed to its lowest rate in 11 months. B/Day 24/1/92 (58)

The M3 growth rate from the base of the guideline year also slowed, to 13% in December from November's 15,7%. It is at its lowest since the Reserve Bank set its guideline range for base year growth of 8%-12% early last year.

Distortions caused by the provisions of the Deposit-Taking Institutions Act swelled monetary aggregates in the first quarter of this year and are primarily responsible for the base year growth rate overshooting its guideline range.

Nedbank chief economist Edward Osborn said neither the year-on-year nor the base year growth rate for M3 was strictly accurate in view of the Act's distortions. The Act's provisions boosted M3 by R5bn-R6bn as from February 1991.

Osborn said a truer impression of monetary expansion was established by annualising the M3 growth rate from February. By this measure, M3 was growing by 8,3% excluding the Act's distortions.

Investors to get Masterbond payouts

58

SHARON WOOD

MASTERBOND investors would soon receive payouts for their participation bond and money market investments, Japie Jacobs, special economic adviser to the Finance Minister, said in a statement yesterday.

The decision followed discussions yesterday between the special task force appointed by the Finance Minister and the Masterbond curators.

"From these discussions it appeared that the curators are now, in terms of the court order under which they are acting, able to take certain steps," Jacobs said.

The curators will pay investors with participation bond schemes their interest payments for November and December 1991. Investors in money market schemes will receive capital and interest payments. These payments will be posted to investors shortly. B/Day 24/1/92.

Jacobs said it was unfortunate that some investors in the participation bond schemes would not receive interest because the projects in which their money was invested did not yield interest.

"The curators are doing their utmost to serve the interests of investors in the debenture bond schemes. For various reasons capital and interest will not be paid to investors for the present," the statement said.

The curators will submit a full report on the Masterbond group to the Cape Supreme Court on February 12.

Seeff's futures market plans 'well under way'

BDay 24/1/92 (58)

PETER GALLI

SEEFF Trust planned to move into the futures and options market and preparations for this were already under way, Seeff Organisation Holdings chairman Lawrence Seeff said.

"The operation will be dealing with broking, futures and options and should be operational by June, he said in an interview yesterday.

"In addition, we will be setting up a portfolio planning and financial management division."

However, this would take time. "Our goal is to become a merchant banker in the next five years."

The primary motive for his move from Cape Town to Johannesburg was to become involved in the financial services division, which falls under Seeff Trust, and to look at the development of Transvaal syndications.

Syndications were already a billion-rand business and were set to grow to between R3bn and R4bn in the next few years. The Seeff Trust scheme, whereby assets were used as security for finance in syndications, would be used here.

"This scheme never got off the ground in Cape Town as we could not find the correct property. We have appointed two CAs as Transvaal syndication managers," Seeff said.

On criticism that syndications were seeing properties overvalued and bought for more than their worth, Seeff said this was true, but market determined.

"Demand for these prime properties has increased and this has resulted in the properties being sold at a lower yield, but this is only in response to market demand".

SEEFF

There was a possibility that the group would list in the future to allow directors and staff to hold shares in the company. The group had no debt and therefore did not need to list for this reason, Seeff said.

In addition, before possible listing, the group was looking at full financial disclosure, probably as early as the year to end-February 1992, he said.

Pensioner to challenge SA Perm

(58)

STAR 25/11/92

BRENDAN TEMPLETON

A PENSIONER believes he may be able to hold a major building society responsible for the losses he incurred by being advised to invest in the ill-fated company, Masterbond, because of the batch of documents mysteriously sent to him through the post.

The pensioner is Ray Netto (63). His R120 000 life savings and his dream home are at risk because he bought short-term bonds via the SA Perm Building Society. He believes that the documents, posted anonymously to him a day after his tale of woe appeared in a Johannesburg-based finance magazine, provide the evidence he needs to prove that the building society is liable for his losses.

POORER AND WISER: pensioner Ray Netto.

A clause in the Deposit Taking Institution (DTI) Act states: "A DTI shall not, for the purpose of effecting a money-lending transaction directly between a lender and a borrower, perform any act in the capacity of an agent."

The documents show that the Perm actively sought out Masterbond, applying for appointment as agent to the company.

Mr Netto, of Isando, was surprised to see himself referred to in the documents as "obsessive, obnoxious, persistant, very religious and a wheeler dealer".

They also show that the SA Association of Retired Persons and the Post Office recommended that their members and clients invest in Masterbond.

Mr Netto's claim is untested but, if it holds water,

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SA Perm

(59)

● FROM PAGE 1

could have far-reaching consequences for other deposit-taking institutions such as the Perm.

The Saturday Star knows of several other DTIs which effectively acted as agents between their customers and Masterbond.

Over 20 000 investors, many of them pensioners who stand to lose their life savings, were affected when the billion-rand investment company collapsed.

Many people who have written to pensioner Don McKenzie, of George, who is trying to set up a fund to pay for lawyers to represent the small-time Masterbond investor, blame the Government for not taking timely steps. But the Government has said that Masterbond was acting legally.

Mr Netto claims the building society advised him to invest his money in Masterbond when he approached them with his life savings.

But the Perm claims that he specifically asked them to invest his money with Masterbond and that they warned him of the risks.

The Perm also insists that being a deposit-taking institution does not make it liable. Perm spokesman David Harrison says all it did was to facilitate Mr Netto's request to buy short-term debentures from Masterbond.

He said that Perm clients were always advised to invest in the society's own products.

But a letter from the Perm Natal general manager to its divisional manager speaks of the "great need for the Perm to raise non-interest income through commissions.

"As we were losing this business ... we saw an opportunity to conclude the transaction for the client and thus earn income for the Perm."

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But it also states that none of its sales people did a "forced" sale for Masterbond.

The documents show that the Perm approached Masterbond and, in a replying letter, Masterbond laid out its different interest rates and commissions.

Other documents in Mr Netto's possession show that he is not the only one who has suffered. One letter refers to a Mr Breytenbach who has been interdicted by the Perm. He invested R200 000 just before the collapse of Masterbond. The cheque was returned requiring a signature to an alteration, but he refused to do so and moved the money into a fixed investment.

with urbanisation, droughts and companies and individuals

Investments can attract varying tax liabilities

STAR 25/1/92 (58)

Money Matters

MAGNUS HEYSTEK

INVESTMENTS and income tax are not only very confusing to most ordinary investors, but also to tax planners, investment advisers and even the Receiver of Revenue himself.

Some investments today are tax-free, some partially tax-free while others are fully taxable. However, every serious investor should at least know the basic difference between the various kinds of investments on offer because to ignore the effect of income tax on investments would be a costly mistake.

Take, for instance, someone who has R100 000 invested in a fixed-income deposit earning 15 percent (R15 000 a year). The first R2 000 of income does not attract any tax, which means that the investor has to pay income tax on R13 000 according to his/her average rate of tax.

Using 30 percent as an average, the tax comes to R3 900. With the R2 000 untaxed portionthe investor ends up with R11 900, equivalent to a return of 11,9 percent.

As a general rule, most income-earning investments will attract income tax on the income, apart from the first R2 000. Hopefully this will be increased in the future.

Some investments made prior to the 1990/91-tax year still have a tax-free element, but this concession is currently being phased out at 20 percent a year. By 1995 this concession will have been phased out.

Investments that fall in this category include special tax-free indefinite period building society shares and deposits, building society subscription shares and deposits, building society deposits, made under the state-aided home-ownership saving schemes, Post Office savings and telebank deposits.

To make matters even more confusing, different maximum amounts apply to all these types of investments.

All other kinds of income-earning investments like fixed deposits, participation mortgage deposits, call accounts, post office and bank savings accounts are fully taxable apart from the first R2 000.

Equity investments, however, are treated differently. The dividends paid by share investments, listed or otherwise, do not attract any income tax. Prior to the 1990/91 Budget dividends attracted income tax according to a sliding scale, but this was abolished on the recommendation of the Margo Commission of Inquiry into the tax system. The reasoning here was that companies already paid tax on their profits, which meant that tax on the dividends amounted to double taxation.

Property unit trusts which are listed on the JSE, again are treated differently. The income generated by the property trusts are not taxed at company level but only in the hands of the owners, and then at the average tax rate which applies. That's why I consider property trusts a fairly good investment for people with a low average rate of tax.

Life insurance policies, especially endowment policies with a minimum of life cover for ten years or more do not attract any income tax. Because the returns on most, not all endowment policies, have generally outpaced the inflation rate they are very popular with the investing public.

However, should an endowment be matured before the ten years are up, any proceeds will attract income tax.

The income tax status of unit trusts can also be very confusing. Unit trusts receive their income from two sources: the dividends from companies in which they are invested, and income from the cash-investment that they make. These make up what is called the income-distribution.

Now here comes the tricky part: dividends are not taxable; the same applies in the case of unit trusts.

Income received from income-generating investments do attract tax.

Normally unit trusts do not have a lot of money invested in liquid investments, but this varies from time to time depending on the trust's outlook on the equity market. When fund managers are bullish they buy more shares (and hence have less cash invested) while if they are cautious, they hold more cash. This means more income for the unit trust holder. And if you are by now hopelessly confused, wait until next week when I discuss income tax on retirement annuities as well as that dreaded thought: A capital gains tax.

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230 000 ignore the risk of bad debts

S Times (Buss) 26/1/92

BY DON ROBERTSON

ONLY 5% of South African companies are insured against debtor losses — in spite of the dismal state of the economy and the rising number of liquidations.

About 11 500 companies have taken out credit insurance or credit-risk protection. But about 230 000 businesses probably need this cover.

Company liquidations increased by 45% in the three months to last October and insolvencies rose by 24%, according to Central Statistical Services.

In recent months, however, businesses have become more aware of this type of cover. Only a few years ago, it was virtually unkown in SA.

Credit Guarantee Insurance Corporation (CGIC) offers domestic and export cover and Credit Underwriting Agency (CUAL), a member of Commercial Union, covers the domestic market.

Johan Engelbrecht of Profguard Insurance Brokers says there has been a sharp increase in the number of businesses inquiring about this form of insurance. It effectively protects companies against bad debts, can be used as an additional method of raising funds and can be considered an asset in the case of a company that changes hands.

Mr Engelbrecht says insurance is particularly valuable for small companies which might face ruin if a major creditor should be forced into liquidation.

The insurer guarantees a payout and allows companies to meet their own debts.

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Advice

In a typical instance, CGIC or CUAL will underwrite up to 80% of a company's debtor book at a fixed premium, renewable annually and zero rated for VAT.

The premium will depend on the "age" of the book and the creditworthiness of the debtors, all of which will be established by the insurance companies and treated confidentially.

Depending on any increase or decrease in the size of the book, the premium, perhaps 0,2% of the total value, will be charged.

Accounts are monitored monthly and advice can be offered on debt collection.

In the event of a debtor company facing collapse, both CGIC and CUAL will pay out on provisional liquidation.

A company wishing to raise capital on the strength of its debtor book is traditionally restricted to 50% of the total value. But with credit insurance, it can be increased to as much as 90% of the debtor book's value.

In most instances, the premium for credit insurance, is less than a possible debt write-off.

Shareholders in CUAL are Commercial Union and KreditInform. CGIC is backed by most commercial banks and insurance companies. Political risks are covered by the Department of Trade and Industry.

In the year to June 1990, CGIC collected premiums of R18,5-billion compared with R2,8-billion in 1981 and paid R63,9-million in claims compared with R2,8-million.

Bank tax shock for foreigners

STimes (BUSS) 26/1/92.

(58)

By CURT VON KEYSERLINGK

FOREIGNERS who believe they need not pay tax on interest earned from deposits in South African banks are in for a shock. The Receiver of Revenue says their interest is taxable.

Sources in three of the biggest banks expressed disbelief this week that the law allowed foreigners' interest to be taxed. They say it has not been taxed since the abolition of the 10% withholding tax on non-residents' interest earnings in March 1988.

The tax authorit:es have not tried to collect tax on non-residents' interest since then.

But Commissioner for Inland Revenue Hannes Hattingh confirms that his department is tapping this source of revenue.

"We are only applying the law which states that if the capital on which the interest is earned was made available in SA it is subject to tax no matter where the investor lives," he says.

Depositors in countries with double tax agreements with SA — they include the UK, the Netherlands and Switzerland — are subject to a tax of only 10% on interest earnings.

But foreigners from countries with which SA has no double tax agreement — they include the US, Greece, Portugal, France, Italy, Japan and Australia — are taxed at the full marginal rate of 43%.

Biggest

Inland Revenue law application director John Hanssen says: "People do not seem to realise that the 10% withholding tax was merely an advance which could be set off against normal income tax, which is also payable on interest."

A tax expert says Mr Hanssen's statement is in line with the judgment in the Lever Brothers case where it was held that the source of interest is deemed to be where the capital was made available.

Business Times knows of 12 cases where the Johannesburg Receiver of Revenue has demanded tax on interest earned by foreigners. One is a diplomat who was once stationed here.

Another foreign depositor has been billed for more than R130 000 tax on his interest earnings of about R320 000 in the 1991 tax year. This reduces the interest on his deposit from a pre-tax 17% to under 10%.

All 12 depositers have accounts at a Johannesburg branch of a small bank which has links abroad. The branch manager says the Receiver instructed him this month to withdraw whatever sums are necessary from the accounts of the depositors to pay tax.

"They picked our biggest customers and are probably doing a trial run before they start collecting from the others," he says.

Tax inspectors visited another small bank with foreign connections this week. They said they would instruct it to collect tax on interest earned by some foreign customers.

So far the biggest banks have received no such directives.

A source at a small bank says: "It is unfair. It discriminates against us in favour of the larger banks. It will force our foreign customers to withdraw their funds in our bank. This will strain our resources because a high percentage of our deposits are from foreigners."

But Inland Revenue says the law is being applied equally to all. Collections are

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Tax shock

● From Page 1

ST Times (BUSS) 26/1/92

being made in the most cost-effective way.

A top banking official says: "The 10% withholding tax on interest was abolished to attract foreign funds to SA. The latest news will have the opposite effect.

"Deposits by foreigners have grown in recent years because they have been net sellers of equities. They are now likely to switch their funds to gilts, which are exempted from tax on interest."

(58)

A tax expert says: "The legality of the Receiver's actions could probably be contested on two grounds. First, does a bank have the power to attach its customer's funds to pay the Receiver? Second, the Receiver's interpretation of the source of the funds that generate the interest is open to question."

New currency to be released (58)

A NEW set of currency notes will be introduced soon. C/Pren 26/1/92

General manager of administration at the Reserve Bank, Daan Naude, says the first new R50 notes will enter circulation in October and the new R20 and R10 notes will follow at six-monthly intervals. New R100 and R200 notes will not be circulated until April and October 1994. The R5 note will be replaced by a coin in 1994.

Black bank strides out (58)

By LULAMA LUTI C/Press 26/1/92.

BLACK banking in South Africa takes a giant leap forward this year when the African Bank changes its status from being a general to a commercial bank.

Addressing a press briefing in Johannesburg this week African Bank chief executive officer JCD Theron said the decision was a result of clients' growing need for commercial facilities.

He said: "The demand for both cheque account facilities and commercial facilities in the black community is enormous."

However, Theron said because of the high cost and risk involved in operating both commercial and cheque-account facilities, the bank would be selective in the initial stages.

Wouldn't the bank face a capital shortage problem during change-over?

Theron said such shortages in the banking world were always a problem but his bank was supported by numerous financial institutions.

"However, we would like to keep black people as majority shareholders for as long as possible," he said.

Despite a continued economic decline in the country, Theron said the African Bank did fairly well during the past year and that for the third consecutive year growth was reported in critical areas.

SUN

Sasria builds up a riot chest of R3bn

By TERRY BETTY

INSURING high-risk riot and political damage has proved rewarding for SA Special Risk Insurance Association (Sasria).

It earned R400-million in premiums in 1991, but met claims of only R100-million.

Many short-term insurance companies suffered underwriting losses last year.

Since inception in 1979, Sasria has received about R2,4-billion in premiums and spent only about R650-million to cover claims and expenses.

(58)

It has another R100-million in reserve to cover claims incurred but not yet reported.

Sasria managing director Willem Swanepoel says it has never suffered an underwriting loss.

S/Times (Buss) 26/1/92

Enormous

Sasria provides cover for damage arising out of political unrest and riots.

Mr Swanepoel says it would be impossible for other short-term insurers to provide such cover because the risk is too high and and cannot be actuarially analysed.

Enormous reserves are required for high-risk insurance.

Mr Swanepoel says it is necessary to have 60 years' premiums in reserve. No insurance company could afford that much money.

The difference between Sasria and other insurers is that it has the backing of the Government, the insurer of last resort.

Mr Swanepoel says that if Sasria were to incur an underwriting loss, the Government would provide the balance. Sasria has not had to ask for State money.

The Government guarantee is the only reason Sasria can operate. It is dangerously underfunded with reserves of only R3-billion — seven years' premiums, says Mr Swanepoel.

The maximum a person may insure for is R250-million — 15 such claims would wipe out the reserves.

Sasria started with nothing and has acquired its reserves from premiums and income from investments.

Sasria invests in equities, gilts and semi-gilts, all of which are fairly liquid. Its investments are governed by the same rules and regulations as the rest of the short-term insurance business.

Government guarantees keep premiums at affordable levels. Mr Swanepoel says it costs R15 a year to buy riot cover for a motor vehicle, irrespective of its value.

The cost of annual cover for commercial property is 0,075% of its value. Premiums on private property are 0,015% of value. It would cost R15 a year to insure a R100 000 house.

Sasria is obliged to insure all political risk and is not allowed to withdraw the cover.

Lloyd's of London, another insurer carrying high risks on a large scale, is not obliged to provide cover. It can withdraw cover at short notice.

Lloyd's withdrew all cover for ships in the Persian Gulf during the war last year.

Sasria is run by a board of 10. Two are government representatives and the others members of the short-term insurance business. None of the members has a proprietary interest in Sasria.

Because there are no shareholders Sasria does not have to pay dividends and can plough all money back.


WILLEM SWANEPOEL

Liberty's R1bn milestone

S Times 26/1/92. (58) (BUSS)

By ROBIN PEGLER

THE Liberty Life group continues to show impressive new-business figures. At R1,1-billion, they exceeded R1-billion for the first time in the year to December 1991. This was an improvement of 18,5% on 1990.

New individual recurring premium business increased by 24,3%. This is the most important indicator of the marketing success of any life assurer and is particularly good in the light of the recession. Within the group, Charter improved by an incredible 54%.

A major contributory factor was the success of Liberty's Medical Lifestyle policy, launched last August. It produced more than R60-million. This package is unique and one of Liberty's most successful innovations.

Another high-growth area was single-premium group pensions business, up by nearly 60%. This contrasted with static new business from group pensions which suffered from the recession.

The figures exclude the investment business of pension funds done through Liberty Asset Management. That exceeded R600-million for 1991.

The group figures include Charter Life, which has been refocused. It is concentrating on special lines of credit life assurance, direct marketing and packaged products sold through brokers.

Although 1992 has only started, indications are that Liberty group will continue the encouraging trend.

Liberty's profit figures will be published in a few weeks.

New premium income up at Liberty

(58)

Finance Staff STAR 27/1/92

Liberty Life has reported a 24,3 percent increase in single new premium income in 1991.

Joint Liberty managing director Dorian Wharton-Hood said at the weekend the major contributing factor to the increase was the medical lifestyle product, which was launched last August.

Total recurring premium income came to R482,4 million, of which Charter Life contributed R25,4 million. In 1990, recurring premiums totalled R408,6 million.

For single-premium business, group business income surged by 59,7 percent from R155,2 million to R247,8 mllion.

However, annuity premiums were slightly lower at R265,2 million, compared with R272 million in 1990.

Total new business came to R1,07 billion — an 18,5 percent rise on the 1990 figure of R931,6 million.

Post Office bank exempt from deposits Act

LINDA ENSOR

CAPE TOWN — The Post Office Savings Bank has been exempted from the provisions of the Deposit-Taking Institutions Act in terms of a notice in Friday's Government Gazette and will not have to comply with the DTI's prudential requirements. (58) (207)

The notice also extended the exemption of funding by repurchase agreements by stock brokers and financial instrument traders and principals for a further year. B/Day 27/1/92

A Reserve Bank spokesman said the exemption of such funding was originally intended to last only until proposals for levelling the playing fields between financial institutions had been formulated by Finance Minister Barend du Plessis's special economic adviser, Japie Jacobs. As Jacobs' report was still pending, an extension of the exemption was necessary, he said.

The spokesman said the Post Office Savings Bank had been exempt from the provisions of the DTI in view of the fact that its funds were used to meet the Post Office's capital requirements.

The state was the sole shareholder of the bank which was regarded as a safe institution with a wide spread of small investors.

THE MONEY MARKETS

by Sheridan Connolly

Inflation dashes hopes of lower rates

BDay 27/1/92

IN the money markets last week, the release of higher consumer price inflation data put a damper on hopes of any official easing in interest rates in the short term. The alarming increase in consumer inflation to 16,2% in December from 15,5% in November was likely to delay chances of any official cut in key interest rates, dealers said.

Subsequent to the release of the CPI data, the 90-day liquid BA rate drifted upwards to 16,20% from its recent 16,10% level but rates and liquidity conditions still warranted some easing, dealers said.

In its efforts to tap excess liquidity from the market, the Reserve Bank last week allotted three special short-dated Treasury bill tenders, which were well received in the market. The Bank's mopping up operations were routine for mid-month with excess liquidity present in the market, dealers said.

Dealers expected liquidity to drop slightly this week with revenue payments to government falling due.

On Thursday the Bank indicated the money market shortage lower at R769m compared to R967m on Wednesday. In the weekly Treasury bill tender, the average rate for the allotted R200m tender bounced up to 16,06% from last week's 15,95%. Applications for the weekly tender totalled R338,9m.

Capital market rates eased in the beginning of the week on the back of positive sentiment regarding SA's return to the ecu bond market. However, downward pressure was abruptly halted with the release of the disappointing CPI figures.

Despite harder rates, dealers do not expect strong upward movement on rates as the underlying market sentiment remains bullish. At the end of the week, the benchmark Eskom was up 11% to 16,30% from levels of 16,24% on Thursday. The RSA 2004/6 was also higher at 16,73% on Friday from Thursday's 16,66%.

A lower year-on-year decline in money supply growth did little to pacify the markets. Money supply growth slowed to 12,4% in December against 14,5% in the year to November.

The uptick in the BA rate reflected the markets' response to President F W de Klerk's speech at the opening of Parliament on Friday in which he emphasised government's commitment to maintaining tight controls on spending.

More improvement in Genbel earnings

STAR 27/1/92

By Sven Lünsche (58)

Genbel, Gencor's investment arm, which was one of the major contributors to Gencor's bottom line last year, continued to show an improvement in earnings and dividends in the six months to end-December.

Announcing the results yesterday, Genbel MD Anton Botha said the group would be going to the market soon for additional funds to participate in various projects planned by Gencor subsidiaries.

In the interim period, Genbel's distributable income rose from R74 million to R82 million, equivalent to a rise in earnings per share from 17,1c to 19c — an increase of 11 percent.

The interim dividend was raised by the same level from 13,5c to 15c.

The increases were achieved despite the declining earnings from Genbel's mining and resources companies, which accounted for about 44 percent of the group's assets at year-end.

The lower earnings from mining-related companies, however, reduced the value of Genbel's portfolio to just under R3 billion at the half-year, compared with R3,2 billion at the end of June 1991.

Mr Botha said that Genbel had been actively realigning its assets in recent years from low-growth gold shares into other resource-based equities with better prospects.

Anton Botha . . . realigning assets

As a result, it had acquired significant interests in platinum counters Impala and Rustenburg and paper group Sappi during the interim period.

The value of Genbel's assets at the end of December was equivalent to 693c a share, which compares with the market price of 700c at the same time.

Looking ahead to the full financial year, Mr Botha expected Genbel's earning and dividends to exceed those of the 1990/1 fiscal year.

He said the group's short-term trading subsidiary, Unisen Investments, had declared a dividend of R15 million — up from R12,5 million in 1990 — and should declare R25 million for the full year, compared with 1990's R20 million.

Anglovaal companies going to market for R135 milllion

STAR 27/1/92

Finance Staff (58)

Anglovaal has announced the terms of the rights offers by its financial and insurance companies.

The four companies will raise a combined R135 million, although the two pyramind companies, AVF Group and Avins, will use their funds to follow their rights in the Crusader Life and AA Life offers and the share issue of UK-based associate group Pegasus.

The **AVF Group** will raise R43 million by offering 31 new shares for every 100 ordinaries held at 140c a share.

The two major shareholders — Anglovaal and Absa Merchant Bank — have undertaken to follow their rights, while Anglovaal will also underwrite the issues.

Avins, the immediate holding company of Crusader and AA Life, is offering 63 shares for every 100 shares held at 50c each.

This will raise R37 million and will allow Avins to take up its rights, as well as invest R8 million in the Pegasus share issue.

AA Life, which is not listed on the JSE, plans to raise R26 million, while **Crusader Life** is issuing 47 new share for every 100 held at 210c for its R20 million issue.

The issue prices are on average about 10 percent below the ruling share price of AVF, Avins and Crusader on the JSE.

BD 27/1/92

Anglovaal spells out terms of offer

THE Anglovaal Group has announced the terms of the rights offers to be undertaken by its financial and insurance companies.

Business Day Reporter

In terms of these offers the AVF Group will raise R43m, Avins R46m, Crusader Life Assurance Corporation R20m and AA Life Assurance Association R26m.

However, AVF will use R40m to follow its rights in Avins which, in turn, will use R37m to follow its rights ~~in the~~ Crusader Life and AA Life offers. 58

In order for AVF's two indirectly held operating subsidiaries, Crusader Life and AA Life, and its overseas-based associate, Pegasus Assurance, to continue with their projected growth paths, additional capital was required, Anglovaal said in a statement on Friday.

The new capital would reduce the necessity for reinsurance financing, thus increasing the embedded value of the business written with ultimate additional long-term benefits to shareholders.

Avins, the immediate holding company of Crusader and AA Life, intends to follow its rights in respect of the rights offers by Crusader Life and AA Life and to participate in a Pegasus share issue, the Avins portion of the latter with a total of R8m. AVF will, in turn, follow its rights in respect of the Avins offer and the funds raised will be used to provide for its own needs.

AVF Group ordinary shareholders will be offered 31 new ordinary shares for every 100 ordinaries held at a price of 140 cents a share, 25 cents below Friday's ruling price. The two major shareholders — Anglovaal and Absa Merchant Bank — have undertaken to follow their rights to the 24 274 743 new shares which will accrue to them, with Anglovaal underwriting the balance of the offer.

Avins' ordinary shareholders are to be offered 63 new ordinary shares, for every 100 shares held at a price of 50c each. This compares with Friday's market price of 65c a share.

AVF Group has undertaken to take up its entitlement of the new shares, the balance being underwritten by Anglovaal.

Crusader Life ordinary shareholders will be offered 47 new ordinary shares for every 100 held at a price of 210c each. Crulife closed at 240c on Friday.

Holding company, Avins, has undertaken to follow its rights with Anglovaal underwriting the balance.

All three rights offers will be made to shareholders registered on January 31 and the companies' share registers will be closed from Monday, February 3 until Friday, February 7 1992, inclusive.

Liberty's income up sharply

SEAN VAN ZYL

(58)

THE Liberty Life group's total new business for the year to end-December climbed by 18,5%, pushing new premium income through the R1bn mark to R1,1bn.

Liberty Life group joint MD Mark Winterton said yesterday the group was "extremely happy" with the growth in new business, particularly in light of the poor economic conditions which prevailed during the year.

The life office's new recurring premiums for the year rose by 18,1% to R482,4m (1990: R408,6m), boosted largely by its individual recurring business, which came in at R391,9m (R315,3m). However, group recurring premiums dropped by 3% to R90,5m (R93,3m).

The assurer's total single premium business for the year climbed to R621,2m (R523m) with group business showing the highest growth of 59,7% to R247,8m (R155,2m). Single individual premiums climbed by 13% to R108,2m (R95,8m) while annuity purchases dropped marginally to 265,2m (R272m). B/Day 27/1/92

Winterton noted Liberty's strong growth in new business had been boosted by the launch of its Medical Lifestyle product in August last year. In the five months since its introduction, the medical product has generated about R60m in premiums for the group.

UK fund managers shun SA investment

SHERIDAN CONNOLLY

ONLY one in 20 UK fund managers are in favour of investing in SA despite improving commercial opportunities and a widespread recognition that SA companies have some of the best management in the world. B/Day 27/1/92.

These were the findings of a survey published today by Financial Dynamics, a leading UK financial communications consultancy, which showed that uncertainty and acute lack of confidence continue to hold back UK investments in SA.

The survey found that given the size, importance and growing potential of the SA market, UK fund managers were far more reluctant to invest in SA than were stockbroking and corporate finance communities.

Commenting on the survey, Financial Dynamics' CE Nick Miles said he viewed the expanding SA economy as the gateway to investment opportunities in Africa.

"London's corporate finance and broking communities are already alert to the potential of this emerging market ... Our real worry should be whether Britain's institutions are moving quickly enough to grasp their share of the opportunities that

☐ To Page 2

UK managers

B/Day 27/1/92 (58)

☐ From Page 1

are available" Miles said.

In the longer term, however, fund managers are more optimistic with three in four expecting a higher level of institutional investment over the next three years.

The survey showed earnings to be the most important investment criterion, with exposure to black consumers, political stability and an improvement in the world economy identified as important factors in stimulating investment in SA.

The survey attributed the positive stance being adopted by analysts and corporate finance departments to the growing number of South Africans employed in leading UK banks and broking firms. By contrast, the survey did not identify a single SA fund manager.

With no SA ties, almost half the fund managers surveyed rated their knowledge of SA as either non-existent or basic at best.

COMPANIES

Sechold continues solid growth

SHARON WOOD

THE Sechold banking group, formerly Securities Discount House, continued its solid growth performance in the six months ended December and is looking forward to an even better year in 1992. (58)

The group lifted earnings by 17% to 34,4c a share in the six months from 29,4c a share in the previous year.

Net income after taxation and internal reserve transfers rose to R8,1m during the period under review, from R6,9m in the previous year. B/Day 28/1/92

The group announced a dividend of 14,5c a share, up 21% from 12c.

"The group had a good year despite high interest rates which hindered trading conditions. But the continued restrictive monetary policy forced us to concentrate on investing in ongoing quality earners," Sechold MD Pat Abrahams said yesterday.

In addition, the group had digested its change from a discount house to a deposit-taking institution in February last year, which had taken a lot of time and effort.

Abrahams was confident that the group would experience better times this year as the business scenario improved because it had adapted to its new function as a deposit-taking institution and interest rates would probably fall a couple of percent, improving trading activities.

Commenting on Sechold's limited disclosure of results, Abrahams said the group would continue this practice until legislation required a full disclosure of results.

"Sechold concentrates on showing a consistent growth in earnings and will continue to be conservative," he added.

Crackdown on white-collar crime planned

BDay SEAN VAN ZYL (58)

GOVERNMENT watchdog the Financial Services Board has announced planned steps to stamp out white-collar crime in the financial services industry.

The board was reviewing the Stock Exchange and Financial Market Control Acts to increase surveillance of investment transactions between stockbrokers and financial institutions, board executive officer Piet Badenhorst said yesterday.

The recommended changes, still to be presented to stockbrokers and financial institutions, include the registration of institutional dealers, regular audits of transactions and the appointment of surveillance officers at institutions.

Badenhorst said the proposed changes — resulting from an investigation by former London Stock Exchange enforcement director Bob Wilkinson at the board's and the JSE's request — followed alleged irregular share activities disclosed last year by Attorney-General Frank Kahn.

The proposed rulings applying to life assurers, banks and unit trusts were expected to come into effect by the end of the year under the new Financial Services Act, Badenhorst said. BDay 28/1/92

Amendments to the existing Stock Exchange and Financial Market Control Acts might also be necessary. This would give the board full supervisory jurisdiction over the fund management industry and widen its control over stockbrokers. This would also introduce a "stock-watch" system to monitor share price movements to detect possible insider trading deals.

With regard to stockbrokers, Badenhorst said the board would push for accountability by senior members for the activities of their firms and also greater disclosure of the identity of clients and their use of nominee trading companies.

"Discussions with the relevant authorities are being held to implement the above recommendations."

The board planned to develop a closer relationship with the Office for Serious Economic Offences, the JSE and international securities commissions.

The increased surveillance proposals still had to be thrashed out with the affect-

☐ To Page 2

Crackdown

BDay 28/1/92 (58)

☐ From Page 1

ed industries. However, Badenhorst noted the new rulings would be put forward as "self-regulatory" to contain costs. As a result, it would not be necessary for the board to hire additional staff or invest in new computer technology.

Spokesman for the life assurance and unit trust industries said they had not been notified of the recommended changes and therefore could not comment. However, a senior partner of a leading stockbroking firm said he welcomed any moves to tighten up against dubious share transactions He noted the proposed changes would have more of an impact on the dealings of financial institutions than the stockbroking community which was already heavily regulated by the JSE.

Other major recommendations applicable to financial institutions include fit and proper tests for institutional dealing staff, registration of dealing staff, controls and systems declarations, and audits.

58

'Milestone' insurance for domestics

SHARON SOROUR ARGT 29/1/92
Labour Reporter

AN insurance policy to provide domestic and other workers with death, disability and retirement benefits has been launched in Cape Town.

The Domestic Retirement Plan was the brainchild of Domestic Workers' Association chairman Mrs Maggie Oewies and was developed with Seeff Trust.

Mrs Oewies, who was a domestic worker for 22 years, described the plan as a milestone for domestic workers in South Africa.

"There is a great tradition of long-term service and loyalty among domestics, but at the end of a long career most of them have nothing to show for their loyalty but tears and a ticket home," said Mrs Oewies.

The plan was being implemented at the right time because the attitude of domestic workers had changed and the days of workers being satisfied with "an overall as a Christmas bonus" were over, she said.

The job needed to be restructured as employers expected first world values from domestic workers who came from third world backgrounds, she said.

Underwritten by Charter Life, employers could choose to contribute monthly premiums of R35, R45, R55 or R65.

On premiums of R65 a month, R5 407 would be payable on death, R10 814 on accidental death and R5 407 on accidental injury.

After 20 years, an employee aged between 20 and 35 could get R129 213 on monthly premiums of R65 if the investment grew at 15 percent annually or R96 939 if it grew at 12 percent.

Employees aged between 36 and 45 could get R51 713 at growth of 15 percent and R41 878 at 12 percent after 15 years.

The plan took a year to develop because it was "a technically daunting task to tackle with legal problems and the advent of Value Added Tax and it had to have short and long-term benefits," said Mr Riaan Heyns of Seeff Trust.

Plan makes home ownership easier

(58)

B/Day 29/1/92

Reports by
PETER GALLI

PROSPECTIVE home owners are being offered innovative schemes to encourage them to take the plunge and enter the market as economic conditions remain tough, and interest rates high.

Investec Property Group (IPG) has announced mortgage bond financing at a subsidised rate of 8% below prevailing levels until 1994 at its Bedford Garden Estates.

"The programme, known as Home Ownership Made Easy (HOME) will facilitate a monthly repayment of less than R1 000 a month for an apartment worth R120 900, and will allow the prospective purchaser, who would otherwise not be able to enter the market, to own a home now," says IPG marketing consultant Lawrence Kreeve.

"But there is a catch. The difference between the subsidised monthly payment and the full amount is added to the purchase price.

"For example, if the buyer can afford the present repayment on R108 000, he pays close to this amount. If not, the buyer pays about R120 000 for the unit under the subsidised scheme," says Kreeve.

"The repayments are subsidised for two years, after which repayments revert to current rates.

Bedford Gardens units range from R63 000 for a studio apartment to R275 000 for a three-bedroomed, two-bathroomed duplex unit.

The estate consists of 11 buildings set in 10 hectares with recreational facilities, pools and tennis courts.

Four hundred of the 963 units have been sold since June, at prices well below replacement value, Kreeve says.

Five sales were being negotiated under the HOME scheme, and bond financing would be "no problem" as the units were priced below the Standard Bank's valuation of the properties.

Meanwhile, although times are difficult in the Transvaal, estate agents report local and coastal sales continue almost unabated.

On the coastal front, the decline in the value of the rand is shown by the continued strong sale of coastal property to foreign investors.

One of the most expensive sites at the Langebaan Country Club was recently sold to an air hostess with Cathay Pacific.

"This sale and sales to other offshore investors from all walks of life are telling proof of the decline in the value of the rand," says Owen Wiggins Trust Transvaal manager Dik Gilbee.

While overseas interest is clearly growing, local sales still remain strong, with 1990 Transvaal sales alone topping the R9m mark, he adds.

European buyers have also expressed interest in properties in Sea Point, with four homes recently sold to German and Swiss buyers, says Milton Kelman of Aida's Atlantic seaboard franchise.

Sales in the Sea Point area to upcountry buyers are buoyant, with property worth R10m sold in the four months to December. About 60% of them were to Transvaal buyers wanting holiday homes in the Cape, Kelman says.

In contrast, Southern Cape coastal property sales were depressed over the holiday season, but are picking up now, says Pam Golding Properties Garden Route branch manager Alastair Wallis.

"This lull is due to the recession, high prices on the Garden Route and the fact that December is not traditionally a buying period. The market is cautious, and affordability is a limiting factor."

Finrand to remain 'for now'

BIDay 29/1/92

SHARON WOOD

THE Reserve Bank could not abolish the financial rand until the debt standstill was finally resolved, Reserve Bank Exchange Control GM John Postmus said yesterday.

Speaking at an International Tax Institute exchange control seminar in Johannesburg, Postmus said exchange controls could not be lifted until the Reserve Bank was confident that it would not result in a huge outflow of capital, which the country could not afford.

"Under the present uncertain political and economic scenario it will not be easy to abandon exchange controls in SA." (58) (54)

If a final negotiation was reached with international creditors it would hopefully lift foreign banks' risk exposure limits to SA and the country would not be perceived to be in the category of bad debtor anymore, he added.

SA had serviced its debt consistently but had only repaid capital in tranches as agreed with the foreign creditor banks since the debt standstill in 1985.

Absa swallows Bankorp

STAR 29/1/92

By Ann Crotty (58)

Amalgamated Banks of SA (Absa) today announced that it was acquiring the Sanlam-controlled banking giant Bankorp.

The acquisition will move Absa into top spot in the country's banking line-up with assets of R87 billion.

This puts the enlarged Absa way ahead of its competitors in terms of asset base. The Standard Bank group, which is next in size, has total assets of R55 billion, followed by First National Bank with R44 billion and Nedcor with R42 billion.

Absa will acquire all of Bankorp's shares at 312,5c a share for a total of R1,3 billion. This will be financed through the issue of 116 million new Absa shares at R11,25 a share. Bankorp shareholders will receive 100 Absa for every 360 Bankorp shares held.

The 312,5c purchase price compares with the 280c a share at which 195 million Bankorp shares were issued in 1990.

Bankorp's net asset value was 324c at end-June '91. It will be above this at April 1 '92, the date on which the deal is effective. To the extent that Bankorp is being acquired at a discount to its NAV, the deal will have a positive impact on the capital position of the enlarged group. But at this stage it appears that the merger is largely neutral in terms of capital adequacy requirements.

The merger will see Sankorp's 86 percent stake in Bankorp converted into a 21 percent stake in the enlarged Absa.

It is expected "that in due course Sankorp and Universa will both have an equal interest of 25 percent in Absa".

Universa is owned 40 percent by Rembrandt, 40 percent by Mines Pension Funds and, 20 percent by Sage Financial Services.

Sankorp will have equal representation, with Universa, on the Absa board.

The move seems certain to result in further rationalisation within the financial services sector. Although the timing of the deal may have taken the market by surprise, it seems to have been on the cards for some months.

Absa is reported to have approached Bankorp with merger plans in November. Recently Absa officials publicly commented on the need to rationalise what is a "chronically overstaffed sector".

In the Eighties the numbers employed in the banking sector increased by over 47 percent — this was despite the massive investment poured into technology.

Ahead of the deal Absa has 26 500 employees and Bankorp 14 800.

Absa and Bankorp have both recently gone through a period of rationalisation. In the case of the former, this resulted from last year's merging of United, Allied, Volkskas and Sage to form Absa under the leadership of Piet Badenhorst.

In Bankorp's case, it resulted from the appointment of Piet Liebenberg as new chief executive and the realisation that significant rationalisation would be required to get Bankorp on to an earnings growth track.

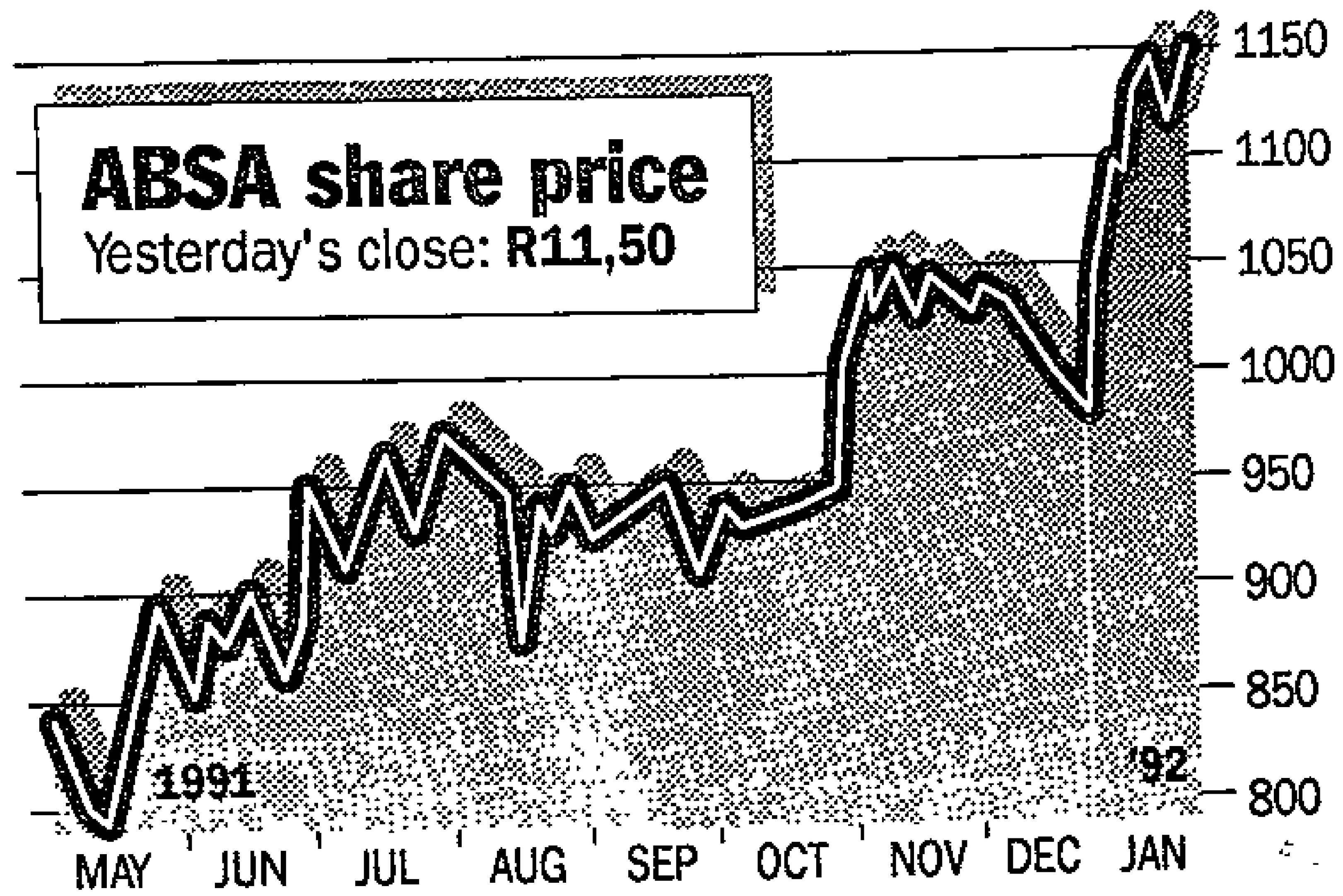
For Sanlam/Sankorp, which over the years has pumped hundreds of millions into an ailing Bankorp, it looks like quite an attractive deal.

Under Mr Liebenberg's direction, Bankorp has made steady progress and it is certain that without this progress (including the massive rights issue) Bankorp would not have been brought into the Absa stable at anything near 312,5c a share.

The cultures of the organisations (and their controlling shareholders) make a tie-up more appropriate than between any of the other financial giants.

Piet Badenhorst

Piet Liebenberg



From an operational point of view a merger between Absa and Bankorp has certain obvious attractions.

Through TrustBank, Bankorp has a heavy exposure in urban SA, complemented by Absa's exposure (through Volkskas) in rural areas.

There is little overlapping in their merchant banking activities. The combined money market operations will make the enlarged Absa a considerable force in that market. Bankorp does not have a large mortgage book.

According to the official announcement, rationalisation will be focused on support functions. The enlarged group will have a more balanced asset mix, a stronger management component, a better delivery system and, an improved product range.

In a related transaction, Sankorp will acquire the interests of Absa and Rembrandt in Momentum Life Assurers for R150 million. An offer will be made to minorities.

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1988 Jan. Febr./Feb. Mrt./Mar. Apr. Mei/May Jun. Jul. Aug. Sept. Okt./Oct. Nov.

STAR 29/1/92

Financial giant Absa takes over Bankorp

58

Absa, the financial giant formed last year by the amalgamation of United Building Society, Volkskas Bank, financial services group Sage and the Allied, yesterday announced it was absorbing the Sanlam-controlled banking giant Bankorp.

This will make Absa the country's biggest banking group, with assets of about R87 billion, ahead of Standard Bank (R55 billion) and First National (R44 billion).

The deal will be effected through a share swop with 3,4 Bankorp shares possibly being exchanged for one Absa share, valuing Bankorp at around 300c a share.

The merger will see Sankorp's 86 percent stake in Bankorp converted into a 21 percent stake.

● Full report – Page 22

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Piet Liebenberg lands top post

Absa seals R1,3bn deal for Bankorp

(58)

BDay 29/1/92.

LESLEY LAMBERT

ABSA is to acquire Bankorp from Sanlam in a R1,3bn transaction which will boost its asset base to more than R80bn, almost double the size of its nearest rival Stanbic.

In a scheme of arrangement, Absa will buy Bankorp's total share capital at a price of 312,5c a share, which represents a premium over yesterday's market price of 295c a share. The R1,3bn purchase will be financed through the issue of an additional 116 514 264 shares in Absa at 1 125c a share. Bankorp shareholders will receive 100 Absa shares for every 360 Bankorp shares.

The transaction will reduce Sankorp's 86% interest in Bankorp to 21% in an enlarged Absa. In an announcement late yesterday, the parties said that in due course, Sankorp and Universa, a company owned 40% by Financial Securities (which is part of the Rembrandt Group), 40% by the Mines' Pension Funds and 20% by Sage Financial Services, will both have equal interests of 25% in Absa.

In a related transaction, Sankorp will acquire the interests of Absa (30%) and the Rembrandt Group (28,7%) in Momentum Life for about R150m. Momentum will trade under its present management.

The board of the enlarged Absa will be reconstituted and Sankorp's representation on the Absa board will be equal to that of Universa. Bankorp CE Piet Liebenberg, who has been at the helm of the banking group's dramatic rationalisation, will join the Absa board as a vice-chairman and will become joint deputy CE of Absa with Danie Cronje.

The merger of Absa's R53bn assets with Bankorp's R28bn assets will result in a financial services group with an asset base of more than R80bn, enhancing Absa's position as SA's largest banking group and widening the gap considerably between Absa and Stanbic, which has assets of about R49bn.

Bankorp's main trading divisions — TrustBank, Senbank and Bankfin — would continue to trade under their existing names to their existing client bases, the parties said yesterday. Rationalisation would be focused on support functions, in line with Absa's practice, they added.

The formation of the proposed group would be in the interests of the clients, shareholders, the public and SA, as a banking group with a more balanced asset mix, a stronger management component and better delivery systems and product ranges would emerge, the parties said.

The institutions' asset mixes would be complementary. Absa was strong in home loans, while Bankorp offered opportunities in instalment sales and corporate markets.

Better use could be made of the management skills available in both groups and there were substantial potential economies of scale which would emerge.

Significantly, the parties said the enlarged Absa would be better equipped to compete against foreign banks which established a presence in SA.

Absa CE Piet Badenhorst, Liebenberg and Cronje expressed excitement about the prospects of the merged group yesterday, saying Absa would be well positioned to "participate actively in financing the future development of the SA economy".

AVF, Avins and Crulife granted listings

THE Johannesburg Stock Exchange has granted listings for the AVF Group, Anglovaal Insurance Holdings (Avins) and Crusader Life renounceable (nil paid) letters of allocation and their respective new ordinary shares to be issued following their rights offers. Beeld 29/1/92

The nil-paid letters of all three companies will be traded from February 3 to February 26 and their respective new ordinary shares from February 27.

AVF Group's letters of allocation and new ordinaries total 30 596 194 each, Avins' totals are for 93 148 025 letters and shares, and Crulife's amounts to 9 652 625 each. (58)

The last day to register to determine those shareholders entitled to participate in the rights offers is January 31. The listing of the nil paid letters commences on the JSE on February 3, and the last day for dealing in them is February 26.

ARG 29/1/92

New R87-bn banking giant

Business Staff 58

AMALGAMATED Banks of SA (Absa) today announced that it is paying R1,3 billion to take over the Sanlam-controlled banking giant Bankorp, an acquisition that will move Absa into top spot in the country's banking line-up with assets of R87 billion.

This puts the enlarged Absa way ahead of its competitors in terms of asset base The Standard Bank group, which is next in size, has total assets of R55 billion, followed by First National Bank with R44 billion and Nedcor with R42 billion.

Absa will acquire all of Bankorp's shares at 312,5c a share for a total of R1,3 billion. This will be financed through the issue of 116 million new Absa shares at R11,25 a share. Bankorp shareholders will receive 100 Absa for every 360 Bankorp shares held.

The 312,5c purchase price compares with the 280c a share at which 195 million Bankorp shares were issued in 1990.

Bankorp's net asset value was 324c at end-June 1991. It will be above this at April 1, 1992, the date on which the deal is effective.

To the extent that Bankorp is being acquired at a discount to its NAV, the deal will have a positive impact on the capital position of the enlarged group. But at this stage it appears that the merger is largely neutral in terms of capital adequacy requirements.

The merger will see Sankorp's 86 percent stake in Bankorp converted into a 21 percent stake in the enlarged Absa.

It is expected "that in due course Sankorp and Universa will both have an equal interest of 25 percent in Absa".

Universa is owned 40 percent by Rembrandt, 40 percent by Mines Pension Funds and, 20 percent by Sage Financial Services.

Sankorp will have equal representation, with Universa, on the Absa board.

The move seems certain to result in further rationalisation within the financial services sector. Although the timing of the deal may have taken the market by surprise, it seems to have been on the cards for some months.

Absa is reported to have approached Bankorp with merger plans in November. Recently Absa officials publicly commented on the need to rationalise what is a "chronically overstaffed sector".

In the Eighties the numbers employed in the banking sector increased by over 47 percent — this was despite the massive investment poured into technology.

Ahead of the deal Absa has 26 500 employees and Bankorp 14 800.

Added to heavy employee requirements and the need for constant heavy investment in technology, additional pressure to effect some rationalisation in the industry comes from the increasing need for South African banks to become internationally competitive.

Absa and Bankorp have both recently gone through a period of rationalisation. In the case of the former, this resulted from last year's merging of United, Allied, Volkskas and Sage to form Absa under the leadership of Piet Badenhorst.

In Bankorp's case, it resulted from the appointment of Piet Liebenberg as new chief executive and the realisation that significant rationalisation would be required to get Bankorp onto an earnings growth track.

For Sanlam/Sankorp, which over the years has pumped hundreds of millions into an ailing Bankorp, it looks like quite an attractive deal.

Under Mr Liebenberg's direction, Bankorp has made steady progress and it is certain that without this progress (including the massive rights issue) Bankorp would not have been brought into the Absa stable at anything near 312,5c a share.

The cultures of the organisations (and their controlling shareholders) make a tie-up more appropriate than between any of the other financial giants.

From an operational point of view a merger between Absa and Bankorp has certain obvious attractions.

Through TrustBank, Bankorp has a heavy exposure in urban South Africa, complemented by Absa's exposure (through Volkskas) in rural areas.

There is little overlapping in their merchant banking activities. The combined money market operations will make the enlarged Absa a considerable force in that market. Bankorp does not have a large mortgage book.

According to the official announcement, rationalisation will be focused on support functions.

The enlarged group will have a more balanced asset mix, a stronger management component, a better delivery system and, an improved product range.

Two whites were to benefit

Sowetan 30/11/92

● From page 1

Linde also confirmed that Kruger was to be a beneficiary in four of the five insurance policies of the dead men.

Their names are Jacob Mlombo, John Ngubeni, who were both buried in Witbank at the weekend, and Arie Mahlangu, Tagishi Mashegoane and Galelekile Gavu, whose relatives have not been traced.

Kruger and Loubser are also Sanlam employees in Witbank. They allegedly met the eight men at the Department of Manpower offices in Witbank late last year.

They allegedly told the eight men they were looking for young single men to sell clothes for them in Pietersburg.

At a Press conference in Johannesburg yesterday, Mmadi repeated allegations that he and his collegues were drugged, bundled into a kombi with blacked-out windows that they could not open.

The door handle on the inside of the kombi was removed.

Gas cylinders

He also alleged that the driver's area of the kombi was separated from the passenger section by a wooden partition.

Inside the kombi were two gas cylinders and two 25-litre containers filled with petrol.

They were driven for some distance.

At some point the driver, followed by his colleague in another vehicle, stopped the kombi, but left the engine running and went to the back of the car where he fiddled with the engine.

The kombi then began rolling over a bumpy area. Mmadi said he was flung out while his colleagues started screaming that there was a fire in the kombi.

"The next thing I knew I was running with Koos from the fire. We could see Loubser and Kruger up on the road, We decided not to go to them,'' he said.

Legacy of apartheid

Yesterday the ANC in Johannesburg said the incident reflected a "cold-bloodedness that is the legacy of apartheid racism and the contempt for black life''.

The latest of the mysteries to emerge was that the kombi, which exploded into flames killing the five men, was registered in a name of an 11-year-old child with a non-existent address.

At the end of the conference, ANC spokesman Dr Pallo Jordan said questions arose from the incident that needed to be answered.

'Cash squeeze will continue'

STAR 30/1/92

By Michael Chester

Economists today welcomed marginal cuts in home-bond rates but warned consumers the overall consumer cash squeeze caused by high interest rates was unlikely to be relaxed until inflation cooled down.

They took their cue from the South African Reserve Bank, which stressed that the general pattern of interest could be reduced only when there was evidence of a sustained slide in the inflation rate.

Deputy governor Dr D J Meijer told a press conference in Cape Town last night there was "little room for manouevre at the moment".

He kindled optimism of cuts later in the year as a result of encouraging signs that the underlying causes of inflation were being dealt with, including the significant drop in the Producer Price Index (PPI) in November last year.

However, the continued high consumer price index was "extremely disappointing".

Speculation over the chances of a widescale drop in interest rates followed action by the First National Bank to cut its mortgage rate from 20 percent to 19,5 percent and by Standard Bank to make a bigger one percent cut in its rate from 20 percent to 19 percent.

The United and Perm building societies were reviewing their own rates at meetings this morning.

Econometrix director Dr Jammine Azar said home-owners would welcome even a marginal easing in the cash squeeze.

But a more general reduction in interest rates was unlikely until later in the year — if inflation started to fall.

A house is an investment of a lifetime - Perm

Sowetan 30/11/92

By JOE MDHLELA

OWNING a home is one of the best ways of taking care of one's hard-earned money and making it grow, according to the marketing manager of the Perm, Mr Richard Ford.

Because housing was in short supply, the demand for it raised the value of the property year by year, making it the most valuable investment.

It was also important that the house be kept in good shape for it to remain a good investment.

"In this way home-ownership makes you a shareholder in the prosperity of the country," Ford said.

Raise money

As the value of the house increased, the owner would be able to raise money from the financial institution using the house as security.

"This could be money for your children's education; extension to the house; or even funds to start a business."

To a very large extent, home-ownership gives security and peace of mind, said Ford, adding that "because it is yours, you know you cannot be moved".

Even after the death of the owner the house would remain the property of the family.

Married and unmarried people may own property and may borrow money to do so.

RICHARD FORD

"This includes single women; women married by antenuptial contract or by customary union.

"They may do so without the assistance of their husbands. But when married in community of property, both partners own the home together equally."

Industry chief wants to see choice widened

B/Day 30/1/92 (58)

DEPUTY chief registrar of the Financial Services Board (FSB), Gad Ariovich, who took control of the unit trust industry in September last year is a firm believer in the free market system.

He would like to see more unit trusts on the market to widen the choice available to the public and to increase competition.

Ariovich is opposed to interfering with market forces and apart from creating an efficient infrastructure for investment organisations, says the industry should be left to develop on its own.

"However, we would not allow the industry to make excessive profits at the expense of the man in the street.

"We have found the industry to be a responsible and efficient one and it has therefore not been necessary to be overly zealous in our watchdog role."

The legislative framework of the unit trust industry underwent fundamental revision in the 1990 parliamentary session to give more flexibility and self-control to the regulation of its affairs.

Whereas previously the Unit Trusts Control Act contained rigid prescriptions over matters such as service charges, the maximum percentage of a portfolio which could be invested in any one share, advertisements, derivatives etc, the amendments removed these rulings from the Act and gave the registrar of the FSB the discretionary power to decide on these matters.

Advise

The Act also made provision for the establishment of a Unit Trust Advisory Committee to advise the registrar in the exercise of his discretionary powers.

Representatives of the board, the industry and the JSE sit on the committee.

FSB unit trust and participation bond manager Gerry Anderson says it was an unnecessarily time-consuming process to have to pass amendments through Parliament in order to change the way the industry was regulated.

He says the industry now has a healthy regulatory environment and he does not foresee any further legislative changes for a number of years.

"The performance of the industry and the number of new funds registered has shown the demand by the public for the funds and that the unit trust industry is growing from strength to strength.

"We expect there will be more unit trusts coming onto the market this year."

Anderson says there is sometimes a lag between the registration of new funds and their public launch as management companies await propitious conditions in the market.

At present the authorities do not see the need to restrict the number of new funds being registered.

"One of the criteria we apply to an applicant is that he must be able to indicate why an existing unit trust cannot act as the vehicle for the idea he is proposing.

"Contrary to the view of the authorities in the early '80s, when a brake was imposed on the number of new trusts, the FSB is happy to approve any new fund if the applicant can prove there is a need for it and there is a reasonable probability of its being successful."

Refused

Some applications for new funds have been refused on the grounds of public interest and the presence of existing funds which could cater for the proposal.

To monitor the financial soundness of the industry the board requires the submission on a quarterly basis of returns by the different funds.

"There is a good relationship between the authorities and the industry and we would only introduce changes after intensive discussions," Anderson says.

Commercial Union buys into blue chips

Blday 30/1/92

(58)

COMPOSITE insurer Commercial Union entered the unit trust industry last year with the takeover of the management of AA Life's Allegro unit trust, renamed the CU Growth Fund.

Assets in the fund have grown from R10m at the time of the takeover to about R25m, and senior GM investments Roger Wanlass says the aim is to bring in assets to R100m over the next few years.

Restructuring

Radical restructuring of the fund's portfolio was necessary after the takeover to rid it of the second and third line stocks which were its dominant features.

The weighting of the portfolio was also changed to more closely reflect the JSE's all share index.

Presently, the fund is concentrated on blue chips with the top 10 counters as follows: Richemont, SA Breweries, Premier, De Beers, Barlow Rand, Anglo American, Anamint, Mid Wits, Rustenburg Platinum and Liberty Life.

Liquidity at end-December stood at 17%.

The fund lagged the industry in terms of performance in 1991, generating a sale to repurchase return of 16,58% compared to the All Share Index's growth of 31,02%.

Wanlass says the fund's performance record for the next year will be dragged down by its past history as it has inherited a poor performance but thereafter performance will equal that of Commercial Union's managed funds.

"If we can emulate the performance of Commercial Union's managed funds we will be in the top quartile of the industry," Wanlass says.

Despite the drawbacks of taking over a poorly performing fund, Wanlass says this route was considered preferable to starting up a new fund from scratch.

While Commercial Union had wanted for some time to expand its financial services to include a unit trust, it had put off the decision to do so as it did not have the established distribution channels and systems.

It had therefore opted to take over an existing fund when management of Allegro was put onto the market.

The trust will be marketed among others to Commercial Union's extensive client base in the short term insurance market.

Instability

Regarding the coming year, Wanlass says stock market instability is expected and it will be difficult to find real value.

The CU Growth Fund will stick to its policy of investing in blue chip shares.

Wanlass is reasonably positive about the prospects for gold in the medium term, and says the fund has invested in gold shares.

An avenue to spread the investment risk

B/Day 30/1/92 (58)

INVESTMENT in property is an essential component in any investment portfolio, and property unit trusts provide an ideal way to invest in property and at the same time achieve a diversification of risk, says Association of Property Unit Trust Management Companies' Les Weil.

"In contrast with investing in a single property, property unit trusts provide an avenue for spreading the investment risk.

"This is achieved through holding a multitude of properties in different geographical locations and tenanted by a large number of sound tenants.

"There is also an advantage that the units are readily marketable through the JSE and an investor will experience no problem in realising all or portion of his units."

Weil says property unit trusts are not taxable as a result of a special clause in the Income Tax Act and since they distribute their entire rental and other income at least twice a year, investors receive their income in the same way as if they were directly invested in the properties.

Benefit

"Investors will pay tax at their usual marginal rates on such income, but will receive the benefit of the interest income deduction of R2 000.

"This is in contrast to receipt of a dividend from an equity trust where the companies in which the trust has invested will have borne a tax charge."

Weil says it is important to note that property unit trusts are not permitted to mortgage or encumber properties in a unit trust portfolio in any way, thereby substantially reducing investment risk.

LES WEIL

"There is nothing, however, to stop an individual investor using his units to secure borrowing at his bank and being listed.

"They are a most acceptable collateral."

The 16 property unit trusts listed on the JSE have a combined market capitalisation of about R5bn and their portfolios cover all categories of real estate, namely offices, industrial, retail and residential.

The prices of each of the property unit trusts are quoted daily and units can be traded on the JSE.

All 12 management companies which manage the property unit trusts are members of the association. Both property unit trusts and equity trusts are regulated by the Unit Trust Control Act.

"The main difference between a property unit trust and an equity trust is that a property unit trust is closed end, which means the management company does not repurchase units from investors."

Weil says property trusts have in the past expanded through rights issues and have been able in this way to offer unitholders an ongoing opportunity to participate in portfolio growth.

"In order to achieve the same comparative investment advantages as other categories of investors, the association believes that in addition to expansion through rights issues, properties should also be acquired for scrip and discussions with the Unit Trusts Advisory Committee of the Financial Services Board," Weil says.

As is the case with equity trusts, the Financial Services Board will not register a management company unless satisfied with its financial standing and ability.

Experienced

Weil says leading banks and financial institutions with longstanding track records are among the major investors in property trust management companies.

"The property portfolios are managed by experienced and professional property management organisations.

"In addition, the trustee is the custodian of each trust's assets and acts as the holder of funds awaiting capital investment and of title deeds and is responsible for the issuance of unit certificates and for ensuring each trust's assets are properly insured."

Weil says property is a long-term investment and considering the fact that there is a limitation of space in existing buildings and development of new accommodation can only be achieved if rentals escalate, the overall trend in income and capital appreciation is promising.

The average yield for the sector is 10,9% and there are sound prospects for capital appreciation, especially if interest rates decline, he says.

New rules give managers greater flexibility

B Day 30/1/92 (58)

THE change in the investment rules of unit trusts to allow them to invest up to 10% of their portfolio in shares with a market capitalisation of R2bn or more has provided greater flexibility to portfolio managers, but has not resulted in restructuring of shareholdings.

Previously, unit trusts were only allowed to hold up to 5% in any one share and not more than 5% of any share's market capitalisation.

Old Mutual portfolio manager Adrian Allardice says the ruling has made things easier as bigger companies can be given a bigger weighting.

"It has changed the structure of portfolios a bit but not radically as we are using the inflow of new funds to effect the restructuring," Allardice says.

Although there is no consensus on the issue, some portfolio managers say compliance with the 5% ruling which was introduced in 1965 could have downgraded the quality of portfolios and it was out of tune with developments on the stock market.

Syfrets unit trust marketing manager Kevin Hinton says there are 60 counters on the JSE with a market capitalisation of over R2bn and they represent 73,9% of total market capitalisation.

The limitation to 5% meant proper weightings could not be given to shares which dominated the stock market.

Sanlam unit trusts chief investment manager Stafford Thomas says many of the shares falling into the R2bn category form part of corporate pyramids.

There are only about 40 shares not involved in pyramids, six or seven of which are gold shares, so few shares are affected by the rules.

But he says the change will benefit portfolio management.

"In the old days the inflow of cash would water down one's holdings in blue chip shares which might have risen above 5% because of the increase in market values. But you could not top up until you fell below 5%.

"The change means we can exercise greater control over the effects of liquidities on the portfolios."

Thomas says the change evens out the portfolio management playing fields as in the past newly established funds could not have the same weightings as older funds which had exceeded the 5% limit through increases in share prices.

Bank to launch Eurobond

SHERIDAN CONNOLLY

THE Development Bank of Southern Africa is to launch its first international bond in February. The bond will be lead-managed by Germany's Bayerische Landesbank Girozentrale. (58) (84)

Reuter reported yesterday that the Eurobond would be denominated in Deutschmarks and raise about DM100m with a six- or seven-year maturity.

It would be guaranteed by the SA government and could emerge as early as the first week of February. BDay 30/1/92

A bank spokesman yesterday confirmed "most" of the substance of reports in international markets, which said the Development Bank was due to make presentations in Frankfurt and Zurich early next month.

"All interested parties", including the ANC had, over the past two years, been informed of the bank's intentions to enter the international capital market, he added.

The spokesman said money raised by the issue had been earmarked for development projects in underprivileged communities. The bank planned to spend R1bn a year over the next few years to finance development projects in SA, the homelands and some neighbouring countries.

The Development Bank first entered the local capital market in 1990 with a R700m issue.

Black community is slowly moving into the field

B/Day 30/1/92

THE unit trust industry's penetration into the black community has a long way to go, but recent adaptations of the concept to the saving patterns of the community should stimulate the growth of this market.

Most unit trust management companies report a healthy growth in the number of unitholders in the black community.

Old Mutual, for instance, estimates about 25% of its new unitholders are black.

However, market research commissioned by Southern Life shows that as a percentage of the total population the number of unitholders generally and black unitholders in particular is low.

Association of Unit Trusts chairman Clive Turner says there is a need to ensure educational material has as broad a penetration into the potential black investment market as possible.

"It is important that the implications behind the stock market are made clear before commitments are made to this form of investment.

"It is not something which can be done in a hurry because of the expense and there is a danger of pushing too hard," Turner says.

Recently, National Stokvels Association (Nasasa) president Andrew Lukhele announced a plan to divert millions of rands saved by informal savings groups into unit trusts, which could be used as collateral for home loans.

First National Bank has backed the scheme, saying it would accept unit trust certificates as collateral, while Syfrets Managed Assets has signed an agreement with Nasasa for Syfrets units to be offered to stokvel members.

ANDREW LUKHELE

Syfrets Managed Assets unit trust marketing manager Kevin Hinton says the agreement opens up a new market for the company's unit trusts and positions it as a company proactively involved in developing new products to cater for the needs of that market.

Lukhele says the arrangement will allow black savings to be ploughed back into the black community.

There are an estimated 800 000 stokvels countrywide with 10-million members who are believed to generate an income of over R200m monthly. Lukhele says about 10% of these are members of Nasasa.

He says a key feature of the unit trust concept is that the financial risk of a loan will be taken away from the bank and assumed by the stokvel which — as in other group credit schemes — will exert peer pressure on the beneficiaries of the loan to ensure loan repayment.

Every major financial institution has a stokvel account, he says.

"In the past there have been complaints that the financial institutions were a one-way street and did not plough anything back into the community."

Financial institutions in the past have been reluctant to lend money for homes to township residents because of the political risk.

An educational programme is planned to educate members by means of newspapers, pamphlets and workshops about how the proposal will work.

Lukhele says building materials depots will be established on the Reef to supply cheap materials to members.

—INFORMATION TECHNOLOGY—

Absa to rationalise computer systems

B/Day 30/1/92 (58)

Reports by MELANIE SERGEANT

ABSA's acquisition of Bankorp will lead to major rationalisation of the new group's computer systems.

Most sources say it is too early to speculate on exact changes, but it will probably no longer be necessary for the group to have two large backbone network systems, two computer and network management centres, backup centres, and other dual facilities.

Absa group executive of management services and technology Alwyn Burger says strategies will be formulated by Absa and Bankorpdata during the next few weeks to determine changes which may be necessary.

"Fortunately, Bankorpdata and Absa mainframe technologies are predominantly IBM or IBM compatible, and we're using the same vendors, so there shouldn't be major program rewrites or other work necessary. Overall, our technology philosophies are much the same."

However, he says there will be savings in terms of not having to double up on certain services and products.

During its own restructuring, Absa did reduce staff, but Burger points out that at least two-thirds of the staff left through "natural" means — either because of normal "turnover" or by retiring.

"We don't expect major staff reductions now, because the workload will remain the same.

"Essentially, we must do our homework. IT staff are highly skilled, and not a resource to meddle with. Major costs would be incurred if we retrenched and were then forced to re-employ, so we'll avoid reductions as much as possible in the short term," he adds.

Another source in Bankorp points out that Absa has become a master of rationalisation due to its own restructurings over recent months, so the process should be well-handled.

He points out that Absa and Bankorp have already been co-operating on each other's disaster recovery systems.

"The big changes will come if it's decided to cut dual facilities such as networks, management infrastructures, mainframe sites and other computer-related systems," he adds.

Bankorpdata has about 650 staff, but there are also several DP staff working in TrustBank, Senbank and Bankfin.

Recession hits the consumer sector

BDay 30/1/92 (58)

THE consumer sector will be avoided by portfolio managers this year as the effect of the recession on disposable incomes sees a contraction in private consumption expenditure.

On the other hand, fixed investment stock and companies involved in "new South Africa" activities such as housing construction will be sought after.

Quiet

Old Mutual portfolio manager Adrian Allardice says the consumer sector will be quiet for most of 1992, taking off thereafter as increased urbanisation and an economic revival puts more money in people's pockets.

Most of the funds in the Old Mutual fold have been restructured to reduce exposure to consumer shares.

"The Industrial Fund has sold its Pick 'n Pay holding and all its Foschini and SA Brewery shares and some other funds have not invested at all in the consumer sector because it is expected to be weak.

"Some of the smaller funds have been even more aggressive in their repositioning."

ADRIAN ALLARDICE

Syfrets unit trust has moved out of consumer stocks on the view that the SA recovery would not be consumer but export based.

Sanlam unit trusts, on the other, hand have been moving selectively into consumer shares such as CNA, Gallo and Pick 'n Pay because prices have dropped by about 30% and they are offering good value.

Sanlam unit trusts' investment manager Stafford Thomas says: "We are not pessimistic about the retail sector, though we believe that it will experience hard times and the results will reflect this."

Fixed investment stock such as Murray & Roberts, which is set to benefit from the opening up of Africa and the involvement of SA construction companies in infrastructural development on the continent, are also being given support by financial institutions.

Another sector finding favour is that of export manufacture, which has received substantial government incentives and is expected to perform well this year.

Allardice says there is disagreement over the future course of the stock market, with views being held across the full spectrum, from bullish to bearish.

"One is seeing a drift in share prices and a drifting market is a sign of uncertainty and tends downwards on low volume.

"I don't think we are in a bear market but in a corrective phase which could last anything up to six months.

"I foresee a gold price drifting upwards and improved company results, but politics will provide the kickstart. Hopefully, when the market turns we will be fully invested," Allardice says.

Syfrets investment manager Matt Brenzel says there is an element of danger in the stock market.

World bourses such as the Nikkei, DAX, FT Index and the Dow Jones are "wildly overpriced" and a correction is likely.

Dislocation

"We anticipate the biggest dislocation will be in the US index because of the nature of the US growth cycle and foresee a correction, perhaps in the next quarter, of between 10-15% in the Dow Jones.

"As markets tend to follow each other this will have a negative impact on the JSE, although perhaps not to the same extent."

Southern Life investments manager Carel de Ridder also says there could be a correction because the market is overpriced.

Sanlam investigates life policies after five killed in minibus crash

B Day 30/1/92

58 / 81 / 38

ANDREW KRUMM

SANLAM yesterday launched an investigation into all life insurance policies sold by two employees allegedly implicated in the deaths on Sunday, January 19, of five black men to whom they had issued policies a week earlier.

The men died when a minibus bought by the two Sanlam employees crashed into a ravine near Witbank. The victims had been recruited through the Manpower Department to sell clothes and were being taken from Luiperds holiday resort in the eastern Transvaal to Pietersburg.

Two of the three survivors of the crash claimed at a news conference called by the ANC in Johannesburg yesterday that the minibus had been pushed into the ravine after the driver had stopped on the side of a sloping road.

The ANC named the two Sanlam men as Kobus Kruger and Lucas Loubscher.

Middelburg police liaison officer Maj Schalk Pienaar said police were conducting mechanical and forensic tests on the remains of the vehicle, but no charges had been laid. Police were investigating a charge of culpable homicide.

Sanlam chief legal adviser Emil Linde said the two men joined the company less than a year ago and were still in its employ pending the outcome of its investigations.

Sanlam was investigating all similar policies sold by the two.

Sanlam had established that its two employees were the beneficiaries of policies, worth R100 000 each, taken out in the names of Koos Skhosana and Samuel Matsimela, both of whom survived the crash.

Through an ANC interpreter, Skhosana told the news conference that Kruger and Loubscher contacted the men on January 2 through the Manpower Department, and offered them jobs in Pietersburg.

He said the two Sanlam employees, dressed in Defence Force uniforms, asked them to sign employment contracts and other forms. Skhosana said the two took them to the Luiperds resort near Witbank, where they were housed in an army tent.

After many delays the men were sent home with a R750 cheque. They were also given R20 in cash for each delay. They returned to the resort on January 18.

Skhosana said the minibus had black spray-painted windows which did not open, and a wooden partition between the driver's and passenger seats. He said the handle had been removed so that passengers could not open the door from the inside, and two 25-litre petrol cans and two gas cylinders had been placed in the back.

Loubscher drove the minibus, and Kruger followed in "a Jeep".

The minibus later stopped, and he heard Loubscher outside. Then the engine revved. Seconds later the minibus plunged into a ravine and burst into flames.

● Picture: Page 2

Absa's takeover price looks to be a fair one

STAR 30/1/92

Diagonal Street

SS

ANN CROTTY

Given that the overwhelming response to the announcement of the Absa acquisition of Bankorp has been strongly positive, the reaction of the Absa share price yesterday looks quite puzzling.

It dropped from R11,50 on Tuesday to a close yesterday of R10,65. Volume trading was exceptionally heavy — 879 000 Absa shares changed hands. This compares with the 828 000 that traded during all of last week.

The drop in the Absa share price has more to do with the sharpness of the hike in that share since last November, than market disappointment with the merger news. This in part reflects the market's bullish attitude towards the large financial groups. This sentiment wasn't enjoyed quite so much by Bankorp.

It may also be significant that Absa and Bankorp were reported to have started merger talks last November.

In general analysts have greeted the announcement enthusiastically although its timing has taken many by surprise.

Feeling is that both of these financial giants are currently going through fairly traumatic reorganisation processes and that perhaps a delay of 12 months would have been in order.

This would have given Absa's Piet Badenhorst more time to bed down last year's merger between United, Allied, Volkskas and Sage.

Similarly, Bankorp is currently undergoing a rationalisation that is affecting employees from the very top to the lowest levels. The major rationalisation that Piet Liebenberg instigated back in 1990, includes changes to personnel, systems and culture.

While it is accepted that Mr Liebenberg was making good progress at Bankorp, another year could have shown even greater progress.

One suggestion is that the pace of Bankorp's progress was being threatened by the weakness of the economy which is aggravating the group's serious bad-debt situation.

Putting Bankorp into Absa, which is thought to have much stronger management at retail level, would help to ensure that adverse economic conditions do not do too much damage.

Against this notion that the merger represents some sort of rescue package for Bankorp is the fact that the price Absa is paying for Bankorp is certainly not a "rescue price". At 312,5c a share, the offer is close to Bankorp's net asset value (NAV).

Even if allowance is made for Bankorp's attractive tax losses (which will be very useful for the enlarged Absa), the pricing of the deal does not represent a bargain for either party.

On reflection, it could be the best time to put the two giants together for all the above reasons.

Instead of waiting for Bankorp and Absa separately to bed down their rationalisation programmes and then present each group with a whole new deal with which they have to come to terms, it is probably better to resolve the much larger rationalisation issues in one go.

To this end, Absa's stronger management showing in the retail end of the market will help Bankorp.

If their previous actions are anything to go by, then the rationalisation strategy for the enlarged Absa is likely to start with head office/support type operations. Branch closures will be much further down the line with decisions dependent on profitability and/or strategic necessity.

In this regard, Bankorp's very small property portfolio (it relies mainly on rented properties) will be significant.

● Included in the Absa (and Universa) portfolio of interests are Volkskas Bank, Volkskas Motorbank, Volkskas Merchant Bank, Price Forbes Group, Allied Bank, Allied Building Society, United Bank, UBS Insurance, UBS Trust and, Sage Life.

In Bankorp there's Senbank, Bankfin and TrustBank.

Upturn will be a boost for property

B/Day 30/1/92

(58)

THE next economic upturn will increase demand for industrial, retail and office space and ensure growth for property unit trusts, says J H Isaacs Group Property Management director Markham Becker

"The expected downward trend in interest rates which usually precedes an upturn should result in higher prices for property units," Becker says.

The three closed-end property unit trusts in the JH Isaacs stable — Centrecity Property Fund (Cenprop), Grove Property Fund and Capital Property Fund — have a combined market capitalisation of about R1bn.

"Historically, Cenprop has been a top performer in the sector and in recent years, as ongoing upgrading and rationalising of the portfolio has produced results, earnings growth of over 50% from 1989 to 1990 has been achieved," says Becker.

Cenprop has generated a 10-year return of 20,38% (including capital growth and dividend income) compared with the All Index return of 23,28%, but Becker says it must be borne in mind that it is an investment with a much lower risk.

Cenprop's portfolio focuses on prime retail and office space and includes Johannesburg properties such as The Mall in Rosebank, JHI House, Innes Chambers and NBS Building.

In Cape Town it has 2 Long Street, in Sandton, Bute House and others elsewhere.

Capital Property Fund's main focus is on industrial and commercial properties with the buildings in the portfolio being general-use flexible ones to ensure rental appeal.

The fund does not purchase specialised industrial buildings.

"It is a secure portfolio with many single-tenant, long-term fully repairing and insuring leases with escalation clauses and regular reviews to market rates."

Grove Property Fund, with stock valued at about R100m, offers industrial and retail properties in both Johannesburg and Durban.

Its fund managers expect it to continue producing consistent returns and further earnings increases are forecast.

Badenhorst's vision for banking empire

B/Day 30/1/92 (58)

LESLEY LAMBERT

ABSA CE Piet Badenhorst hopes to see the financial services group grow internally into a R100bn banking empire over the next two or three years.

Badenhorst, pleased with the conclusion this week of Absa's agreement to buy Bankorp, said in an interview yesterday the various divisions of the two groups would continue to operate under their own brand names and could, through modest organic growth, reach the R100m mark in 1994.

The rationalisation of an enlarged Absa would focus on support functions such as technology, marketing, human resources and accounting, Badenhorst said. But the process would be "evolutionary" and there would be no mass dismissals, he stressed.

Badenhorst dismissed concern in the market about Bankorp's financial state and said he was confident the benefits of the rationalisation would begin to flow through after the first year of the merger.

"There is no absolute certainty about Bankorp's bad debt situation. But we investigated it as intensely as possible and feel comfortable with the level of risk and the provision made for bad debt.

"We also have an agreement whereby the price can be renegotiated depending on the outcome of the 'due diligence' study which still has to be completed. But we believe Bankorp will make a positive contribution to the group.

"Apart from improving our asset mix, Bankorp is very strong in areas such as marketing and technology."

Both Badenhorst and Sankorp CE Marinus Daling cited Bankorp's technological advances as being one of the major benefits of the deal.

Daling said Bankorp's computer facilities and banking systems would reduce Absa's technology expenses and keep it abreast of developments.

The merger would place Absa in a better

☐ To Page 2

Badenhorst

B/Day 30/1/92 (58)

☐ From Page 1

position to compete against foreign banks, which would soon be able to buy major interests in local financial institutions.

Badenhorst dismissed speculation that Absa was involved in discussions with a potential foreign partner But this did not mean it would not do so in the future.

He said the sale of Rembrandt's and Absa's combined 58,7% stake in Metropolitan Life to Sankorp was aimed partially at preventing an internal company from competing with a major shareholder.

Absa's other insurance interests, including Sage Life, the 30% of Commercial Union it inherited from United Holdings and the separate United and Allied insurance divisions would remain part of the group, Badenhorst said

Absa would work on developing its corporate finance market share this year through Absa Corporate Bank

● See Pages 10 and 11

Board resists the call to raise charges to 1%

BIDUN 30/1/92 (58)

THE Financial Services Board has resisted lobbying by the unit trust industry for a 1% increase in the service charge on the grounds that the industry should not be allowed to make profits from unitholders' assets.

The service charge was increased recently from 0,5% to 0,75%.

Deputy registrar Gad Ariovich says: "We have to achieve a balance between a healthy profit for the industry and the interest of unit trust holders to minimise costs.

"We would not be in favour of allowing the creation of superprofits.

"We will consider the application for a further increase, but one should not forget the assets of unit trusts belong to the unitholders and the public interest comes first.".

Ariovich says overseas a 1% charge is common.

The board favours a maximum fee, as is the case at present, to allow for competition on price between players in the industry.

In addition to the annual service charge, a percentage of which is levied at each month end, an initial charge of 5% of the total amount invested is imposed to cover distribution and marketing costs, brokers fees, etc.

Justified

But industry leaders say an increase to 1% is justified as unit trust management companies are battling to remain profitable on the slim service charges allowed them.

Association of Unit Trusts chairman Clive Turner says the service charge of 0,5% placed great pressure on the ability of the industry to perform its functions and maintain its financial soundness.

Old Mutual Unit Trusts GM Peter de Beyer said even at 0,75% the service charge was out of line with the rest of the world, where there was no regulation governing the fee and where the market found its own "comfortable" level.

He says the 5% initial charge is adequate.

"One of the reasons why the unit trust industry was so stagnant between 1970 and 1986 was because there was not sufficient revenue generating ability to cover the service expenses."

Another argument for fee increases is that competition in the industry is getting fierce and more and more has to be spent on marketing, advertising and educating the public, says Southern Life unit trust GM Francois Goosen.

Syfrets' unit trust marketing manager Kevin Hinton also says an additional increase in the service charge over an above the 0,75% is needed if the unit trust industry is to continue growing.

Sound

"It is important that there is an increase to ensure the industry operates on sound a financial basis."

Hinton says the need is especially great for new management companies, which are unable to draw in large amounts of funds quickly.

The low service charge means they operate unprofitably for a long time.

"We estimate that for a management company to operate profitably it has to have at least R100m in assets under administration."

But Ariovich says the board is not short of applications for new unit trusts, which indicates they must have some advantage for management companies.

Shares fall as Absa feel pressure

B/Day 30/1/92

MERVYN HARRIS

(58)

ABSA was under pressure on the JSE bank sector yesterday on concern that the sharp increase in share capital to pay for the R1,3bn acquisition of Bankorp would dilute earnings a share.

The shares fell 6,5% or 75c to close at R10,65 as they topped the most active trading lists with 880 000 shares worth more than R9,5m changing hands in 191 deals.

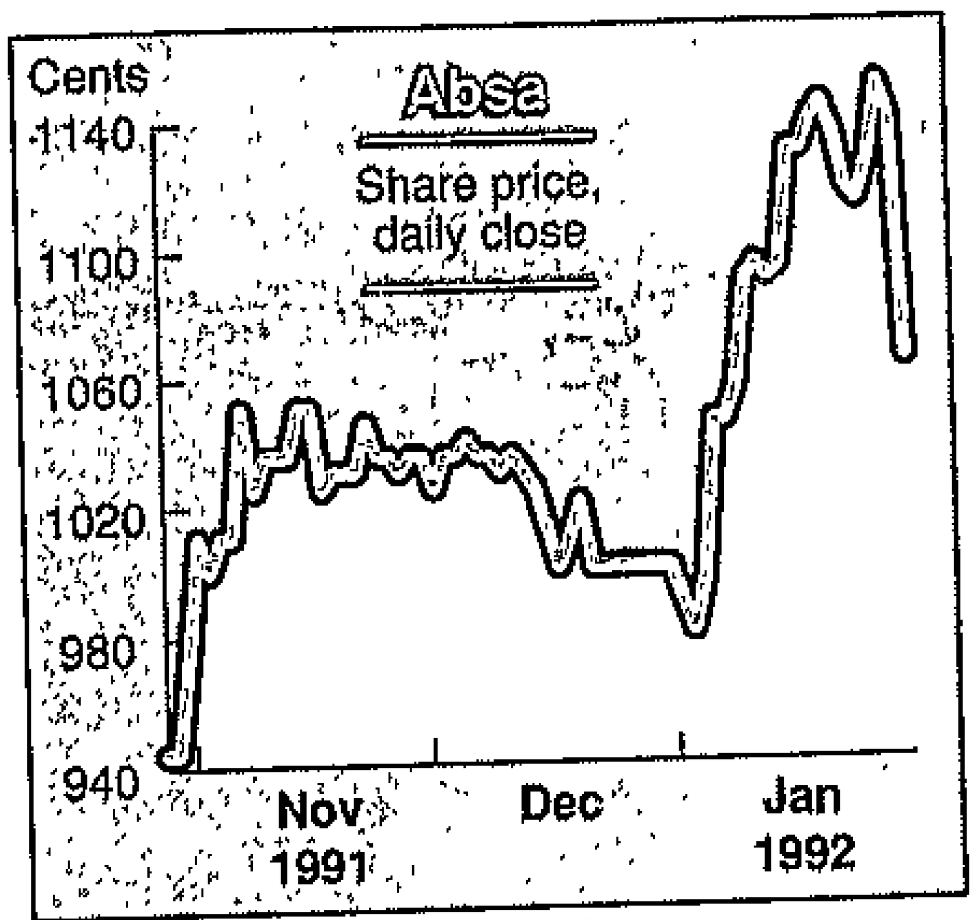
"People who bought the shares ahead of the deal must be nursing burnt fingers," a dealer said.

Analysts said Absa had taken on some "heavy baggage" but had the ability to maintain such a load until things were smoothed out in Bankorp. They noted that Bankorp had major turnaround potential.

The deal would strengthen an already powerful Absa merchant banking sector by the inclusion of Bankorp's Senbank in a sector that already had such influential players as Volkskas Merchant Bank.

Bankorp was valued at 312,5c a share in terms of the deal and the shares touched a high of 315c before profit-taking pared the gains to 5c for the shares to close at 300c in heavy trade.

The activity spilled over to other bank shares with Nedcor the second most actively traded share on the market after Absa. The price rose 20c to R17 while Firstbank rose 50c to a new high of R57.



Graphic: FIONA KRISCH Source I-NET

Absa joins ranks of world's top 200 banks after merger

(58)

B/Day 30/1/92

SHARON WOOD

ABSA would catapult into the ranks of the world's top 200 banks after the merger with Bankorp, which would enable it to secure more international business from SA's major corporates, Republic Ratings chairman Dave King said yesterday.

Absa's improved access to international financial markets would filter down and ultimately benefit the other three SA major banking groups' access to these markets, he added.

Absa's short-term debt rating would remain an A1+ after the merger and long-term credit quality could be enhanced by the benefits which would flow from the merger, he said.

These would include a better balanced asset portfolio, diversification of the funding base, substantial parentage and an improved ability to compete in international financial markets.

Rationalisation and cost savings could be achieved by improving the economies in infrastructure, administration, information technology and staff.

The merger would also eliminate Bankorp's projected need for additional capital by 1994, which would have resulted in a further call on Sanlam to comply with the required capital adequacy ratio of 8% by 1995.

Possible short-term disadvantages of the merger included a setback to staff morale which was only starting to recover after recent rationalisation at both Bankorp and Absa and problems with the integration of different corporate cultures.

King expected further rationalisations in the banking sector.

"The decline in credit quality within the country has had negative effects on the total banking sector, and the smaller banks in particular are coming under extreme pressure from major investors to enhance their credit quality," he said.

Credit ratings were proving to be a significant feature in assisting large investors in directing their flow of funds to the local banking community.

Move may presage Bank action

Bond war as Standard and FNB cut rates

BDay 30/1/92 (58)

SHERIDAN CONNOLLY

FIRST National Bank (FNB) and Standard Bank fired the first shots in a new bond war yesterday with the announcement of across-the-board reductions in home loan rates effective from March 1, pre-empting a cut in the official discount rate.

FNB acted first with a half percentage point cut in its home loan rate to 19,5% from 20%. Standard responded within hours but outshone its rival with a full percentage point cut in its bond rate to 19% from 20%.

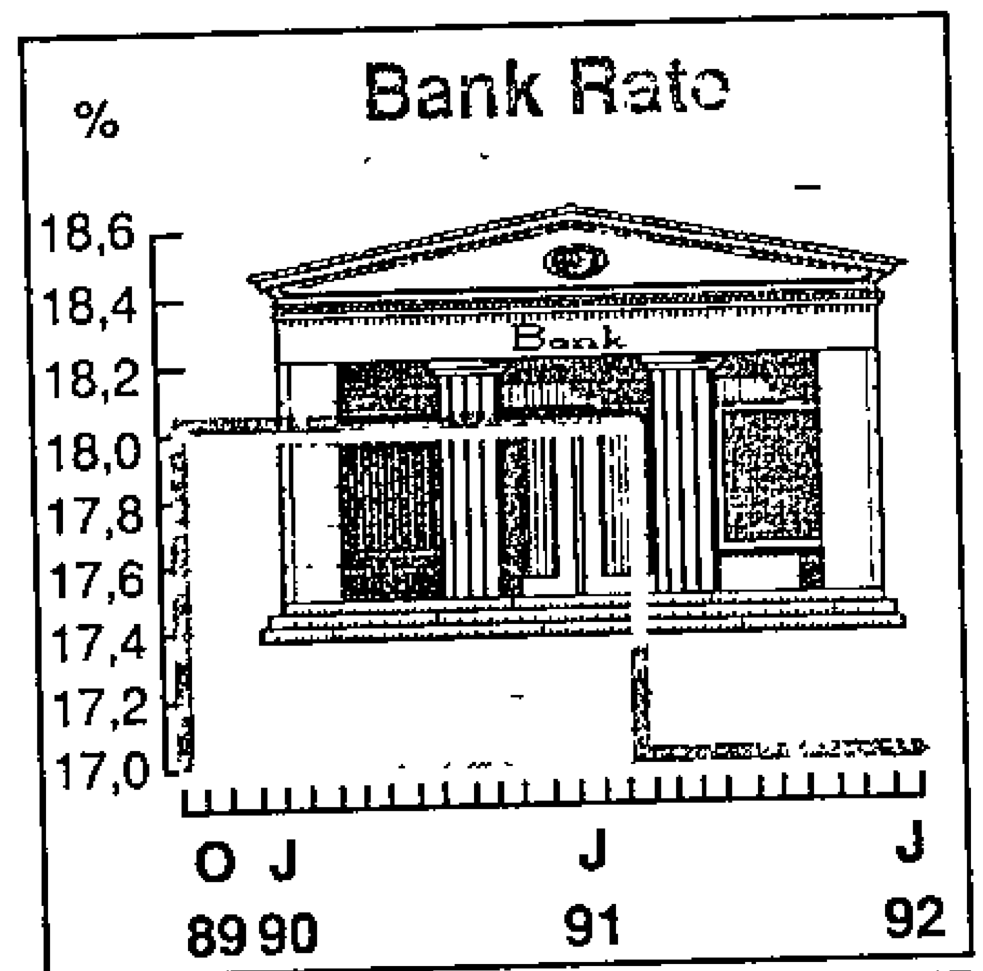
Both banks said yesterday the rate cuts had come on the back of growing expectations of an imminent cut in official rates.

Divisional GM of Standard's home loans division, Eric Tomlinson, said a liquidity build-up in the money market over the past few months had put downward pressure on deposit rates. This had allowed the bank to pass on benefits to home loan borrowers.

Tomlinson said the home loan market was perhaps the most competitive sector in the services industry and lower rates would benefit and attract borrowers.

FNB MD Barry Swart said the bank had been considering a cut in home loan rates over the past few weeks but had decided to move to protect market share following Absa's acquisition of Bankorp.

Some money market analysts agreed the rate cuts by Standard and FNB were designed to erode the margins of Absa's substantial home loans book. Others believed the lower rates were at least partly intended to anticipate an official move to reduce discount from its current level of 17% before the end of the quarter.



Graphic: LEE EMERTON Source: INET

Capital market rates dropped sharply in volatile trading following the announcements of the rate cuts. Towards the close of trade, the benchmark Eskom E168 had eased back to a 16,28% yield from 16,40% earlier. The government RSA 2004 dipped to 16,78% from 16,85%.

FNB's pre-emptive cut in its bond rate matches its aggressive rate-cutting in the first quarter of last year when it shocked its competitors with a one percentage point cut in its prevailing home loan rate of 20,75%. The day after FNB's March 1991 bond rate cut, the Reserve Bank announced a one percentage point cut in its 18% discount rate, which triggered the last easing in prime overdraft rates.

☐ To Page 2

Bond rates

BDay 30/1/92 (58)

☐ From Page 1

Money market rates have been discounting a drop in official discount rates for the past few weeks, and the Reserve Bank has had to resort to open market operations to drain liquidity from the market to prevent rates from falling further.

LINDA ENSOR reports that Deputy Reserve Bank Governor Jaap Meijer said the inflation rate was likely to drop this year and this would allow for a relaxation of monetary policy. The condition for a drop in interest rates would be a visible improvement in the rate of inflation

Meijer told a briefing in Cape Town it would be psychologically inadvisable to drop interest rates if there was no success in the fight against inflation, even if this was justified by underlying conditions.

"The room for manoeuvre is fairly limited as Bank rate is only 17% and if you deduct the most recently measured CPI inflation rate, the real Bank rate is about 0,8%. There is no room whatsover for reducing Bank rate more than by perhaps half a percent," Meijer said.

trusts

Regular buying is a healthy trend

BDay 30/7/92 58

ABOUT 34% of investments made in unit trusts are by way of regular contributions and the automatic reinvestment of income, the remainder being through lump sum investments.

Association of Unit Trusts chairman Clive Turner says the growth of the regular purchaser of units is a healthy trend for the industry and individual investor

For the industry it means the base level of sales continues to rise even in bad years, providing stability.

The individual, on the other hand, benefits from the "undoubted advantages" of rand cost averaging.

Sanlam unit trust GM Otto Jaekel says the advantage of rand cost averaging is that if one regularly invests a certain amount of money in a unit trust over a period of time the average cost of the units will be lower than the average of the prices on the days on which they were bought.

"This is because a given amount of money will buy more units at a time when the unit price is low.

"The bigger the fluctuations in the prices at which units are bought, the lower the average purchase cost will be relative to the average unit price.

"In this way you maximise your prospects of capital growth and minimise the effects of bad timing."

Jaekel says lump sum and regular investments have their own advantages.

"With a lump sum you can pick your own time when prices are low in order to obtain the best possible growth over both the short and long term. This requires good timing as well as expertise.

"On the other hand, a regular investment of a fixed amount each month gives you the benefit of rand cost averaging."

rules to

Unit

Standard attracts overseas cash

THE Standard Bank Extra Income Fund has had good inflows from overseas investors who have taken advantage of the financial rand to get a discount on the purchase price of units.

Standard Bank Fund Managers MD Derek Finlayson says its relationship with Standard Bank gave the fund participation in the international SWIFT foreign exchange system which facilitates the speedy and efficient transfer of foreign currency into and out of financial rand.

Finlayson says income funds are ideal for investors who require a regular income, wish to utilise the R2 000 tax free allowance on interest income and those with a low marginal rate of tax.

They are also ideal for investors who wish to earn higher returns than those available on call and fixed deposits and who are prepared to leave their capital in the fund for a minimum period of three years.

The profile of the income fund investor is one who is prepared to take a moderate amount of risk, but who is not prepared to risk all or part of his capital in the equity market, Finlayson says.

The tax benefit of income funds is that the first R2 000 of interest income from investments is tax free.

"At the current level of income per unit a person will have to invest an amount of R12 240 in order to earn R2 000 in interest income in the Extra Income Fund," Finlayson says. B Day 30/1/92

In 1991, the Extra Income Fund generated a return of 18,4%, of which 3,11% was capital profit which was not taxable.

Managers are now turning to mining shares

BDay 30/1/92

(58)

PORTFOLIO managers say the run on industrials last year has left little room for further growth in 1992 and they are turning to mining shares.

Their view is based on the expectation that together with an upturn in world economies there will be renewed demand for commodities such as steel, copper, aluminium, platinum and manganese.

Old Mutual unit trust portfolio managers have already started moving into mining shares.

Sanlam unit trust investment chief Stafford Thomas says: "The mining sector has underperformed over the last few years and there is potential for good growth, especially as it will be coming off a low base.

"One of the changes which has taken place in our portfolios has been to increase their exposure to mining shares."

There is some disagreement, however, on the timing of the renewal of US, UK, Japanese and German economies.

Syfrets portfolio manager Matt Brenzel says: "We believe the American economy has bottomed out and will start to pick up, while the UK economy is close to a trough and will start bottoming out in the first quarter.

"The emphasis in our portfolios will be towards selected commodity type shares."

Brenzel says, however, that it is too early to expect a recovery in the commodity cycle at this point.

"Commodities will remain under quite a bit of pressure for some time as the final death throes of the world economic recession are played out."

He says not much growth is expected from industrials, which showed strong growth last year, especially as the economic recovery locally and internationally is expected to be a lacklustre one.

Southern Life investment manager Carel de Ridder, however, says while commodities will benefit from freer trade he does not expect a broad recovery and pins his hopes on GDFI and export manufacturing stock.

Thomas says there will be an upturn in Western economies throughout 1992 and 1993, though much depends on a revival of the American economy.

On the other hand, Old Mutual portfolio manager Adrian Allardice says he does not foresee any significant upturn in mining shares in 1992 but they do offer reasonable value.

The mining funds, which had a poor showing last year, should perform reasonably well in 1992.

"There was a lot of nervousness in metal prices in 1991 because of fears about the world economy.

"I do not think the fundamentals are going to get any better but the fears are going to fall away a bit. Russia sold a lot of its stockpiled commodities last year and it is unlikely it will do it to the same extent this year.

"So we should see some recovery in metal share prices this year," Allardice says.

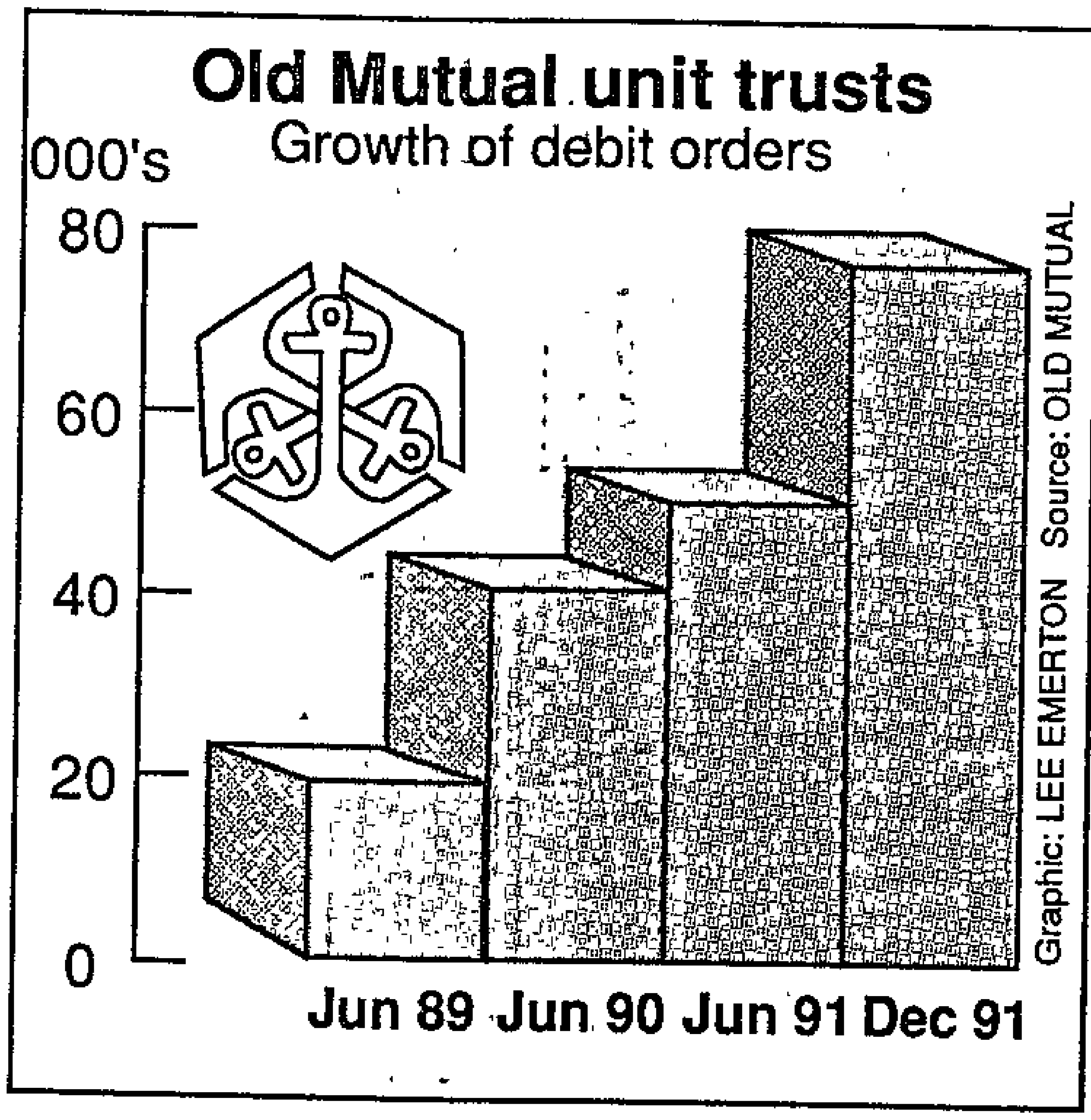
Old Mutual unit trusts have been slowing down their purchases of industrial shares and increasing their purchases of mining shares.

Some of these shares are holding their own in an otherwise drifting market. However, Allardice says there is a need for careful selection in the choice of shares.

"Mining financials offer the safest investment as it is easy to be wrong about a particular sector. At least mining financials have a broader spread and we are buying at a discount.

"We expect reasonably good fundamentals, but that does not necessarily mean that all share prices will be stronger because some have overrun themselves."

Quarterly



Mutual looks to new funds

OLD Mutual, which has six unit trusts in its stable with assets totalling R3,5bn, plans to bring a number of new funds onto the market in the next few years.

The life assurer introduced a new trust, the Top Companies Fund, onto the market last year.

Old Mutual Unit Trust manager Peter de Beyer says there is considerable room for new funds on the SA market, which is nowhere near being overtraded, though there are too many management companies and their number is likely to contract through mergers.

58

Commitment

However, the introduction of new trusts will be a slow process as the formation of a new fund is a big marketing exercise and requires the commitment of a large amount of capital.

The Top Companies Fund excludes direct gold and property shares from its portfolio.

De Beyer says investors have differing opinions about the gold sector, which is driven by the price of gold, over which a portfolio manager has no control.

Excluding direct gold shares from the fund allowed an investor to invest specifically in a gold or mining fund to gain this exposure.

"Another reason for establishing the fund was that the Investors' Fund had grown large and some people preferred to be invested in a small fund in the belief that this gave greater flexibility.

"We have found a lot of investors in the Investors Fund who are hesitant about going into a specialist fund as their second or third investment but are quite comfortable about investing in both the Investors' Fund and the Top Companies Fund." BDay 30/1/92

De Beyer says the fund will grow quite quickly and will become Old Mutual's second largest fund with assets of over R130m by the end of 1992.

In the first six weeks of its existence cash flows totalled about R55m.

Cautious

Top Companies Fund portfolio manager Adrian Allardice says a cautious approach has been adopted to investing in the market because of the high ratings of some shares.

As a result, liquidity has been about 30% — much higher than the long-term aim.

Investors seek refuge from inflation erosion

Bday 30/1/92 (58)

THE phenomenal growth of the unit trust industry is likely to continue this year as investors seek refuge from the eroding effects of inflation on their finances, say industry leaders.

Since 1986, when the industry's growth took off, the market value of assets has soared to R11,4bn from R2,7bn.

The number of trusts has also burgeoned to 42, while the number of management companies has increased to 20.

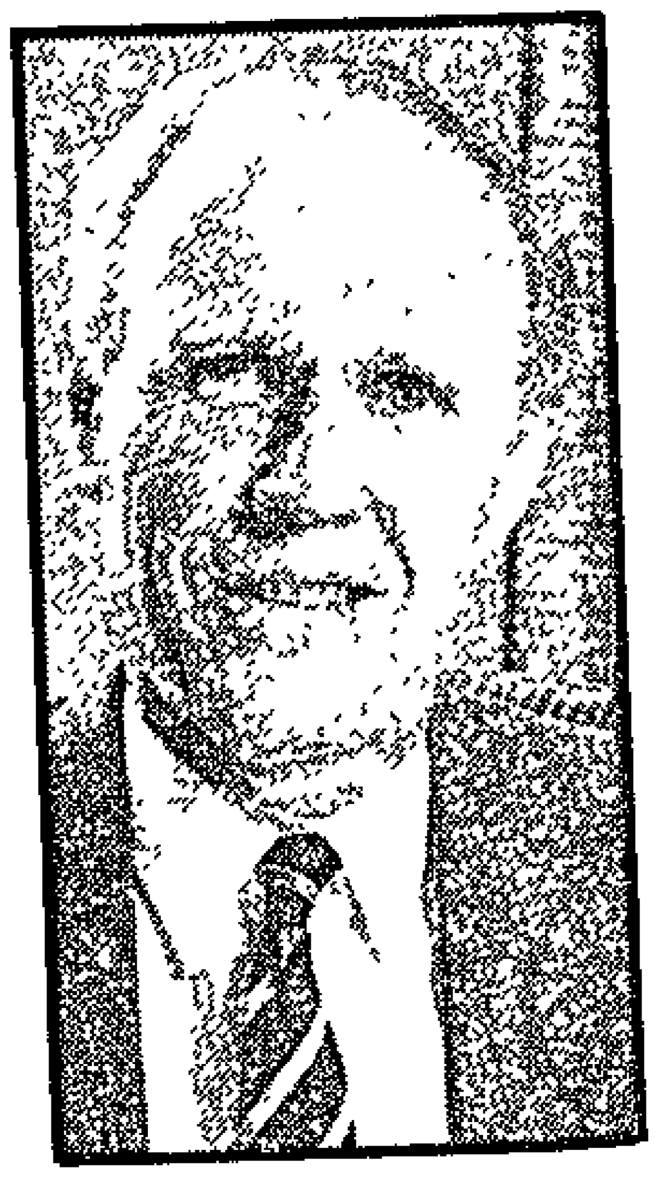
The number of accounts has increased in tandem with this growth, reaching 938 254 at end December 1991.

High level

Gross sales last year amounted to R2,9bn, with net sales topping R1,45bn after deducting R402,7m repurchases.

Association of Unit Trusts chairman Clive Turner says there is every reason to think there will be a continuing high level of interest in unit trusts this year.

"Unit trusts have established themselves as a savings and investment vehicle which cannot be ignored in today's inflation-



CLIVE TURNER

ary environment and will attract interest whatever the immediate outlook for equities might be."

Old Mutual unit trust manager Peter de Beyer says he does not foresee any halt to the industry's growth.

"The market is underpenetrated in international terms. In the US and the UK, where unit trusts form part of all portfolios, about 25% of households have unit trusts, whereas in SA the percentage is only about 5-6%.

"We could easily double the size of our market in terms of the number of investors over the next few years without doing anything particularly dramatic.

"More and more people are being brought into the industry and we are reaping the benefits of the intensive education that has been undertaken," De Beyer says.

Sanlam unit trust GM Otto Jaekel says far too few people are investing in unit trusts.

In the year to end-September 1991 the number of Sanlam unit trust investors almost doubled from 109 000 to about 200 000 and Jaekel says this growth could be duplicated in 1992.

"Everybody has a medium term investment need and the best way to satisfy this is by way of unit trusts.

"The returns may not be as spectacular as in the past but compared with other kinds of medium term investments unit trusts will still give an above average return."

But with the economy's emergence from the recession likely to be a long, slow process, there are no illusions that the year ahead will be an easy one for the unit trust industry.

"People's incomes are under severe strain," De Beyer says.

"I don't think there will be much growth in disposable incomes as salary increases are not expected to be big.

"However, there are a large number of people who can save who are not saving into unit trusts and it is this untapped market that will ensure the same growth in terms of new entrants into the market that we have had over the last two years. I don't see that process coming to a halt."

Returns

The reason why investors have turned towards unit trusts is the real returns they have historically achieved in the medium to long term.

In the absence of positive real interest rates in an inflationary environment, there have not been any viable alternative forms of medium term investment.

Another reason behind the dramatic growth from 1986 onwards, De Beyer says, is that instead of focusing on lump sum investments the industry went after the man-in-the-street who could invest a small amount on a regular monthly basis.

Full spectrum of saving needs catered for

UNIT trusts have become the backbone of numerous products launched by the life assurance industry to cater for targeted saving.

The saving need is identified, for example, as education, retirement or a mortgage and products based on unit trusts designed to cater for it.

Syfrets recently launched a unit trust to cater for the savings needs of trust managers, while Old Mutual launched a new group trust in the new year.

Old Mutual Unit Trust manager Peter de Beyer says the group trust is aimed at catering for groups of investors such as investor clubs or stokvels which previously invested in one account on an unstructured basis.

The savings are usually long term but are invested short term and attract low rates of interest.

Over and above the targeted products, unit trusts are also considered essential to a financial package of products catering for the full spectrum of needs of a client and providing him with a balanced portfolio.

Southern Life unit trust GM Francois Goosen says the package approach to marketing unit trusts is more viable as the commission paid brokers and intermediaries for their unit trust sales is lower than on other life products.

Only time will tell if Absa bit off more than it can chew

B Day 30/1/92 (58)

LESLEY LAMBERT

BY SWALLOWING Bankorp, Absa will reinforce the position it built in less than a year as SA's biggest financial services group. But how easily will it digest its newest asset?

With Bankorp in the fold, Absa's asset base will grow from about R53bn to more than R80bn. Its shareholders' funds will increase from R3,05bn to R4,4bn, while its share of the SA market dominated by the big five banking groups will be boosted by 13 percentage points to 40%, with considerable gains in the HP and leasing sectors.

While the enlarged Absa's asset base is likely to shrink as duplicated assets are rationalised, its size will remain large enough to pose a massive competitive threat to its rivals, the nearest of which is Stanbic with banking assets of about R50bn and R3,3bn in shareholders' funds. It is certainly big enough to have attracted the attention of the Competition Board and the Reserve Bank — both of which have given their blessing — and it would require nothing short of a merger between two of the other major banking groups for Absa to feel any significant threat to its position among local participants.

But it is not yet in the realm of the untouchables. Imminent changes to banking regulations — the same regulations which are likely to have facilitated the Registrar's sanctioning of Sankorp and Absa's significant investments — will allow foreign banks to make considerable investments in local financial institutions and even to gain control. There is speculation that Absa is talking to a foreign bank, possibly to pre-empt foreign competition, but the other banking groups are also likely to be considering future strategy.

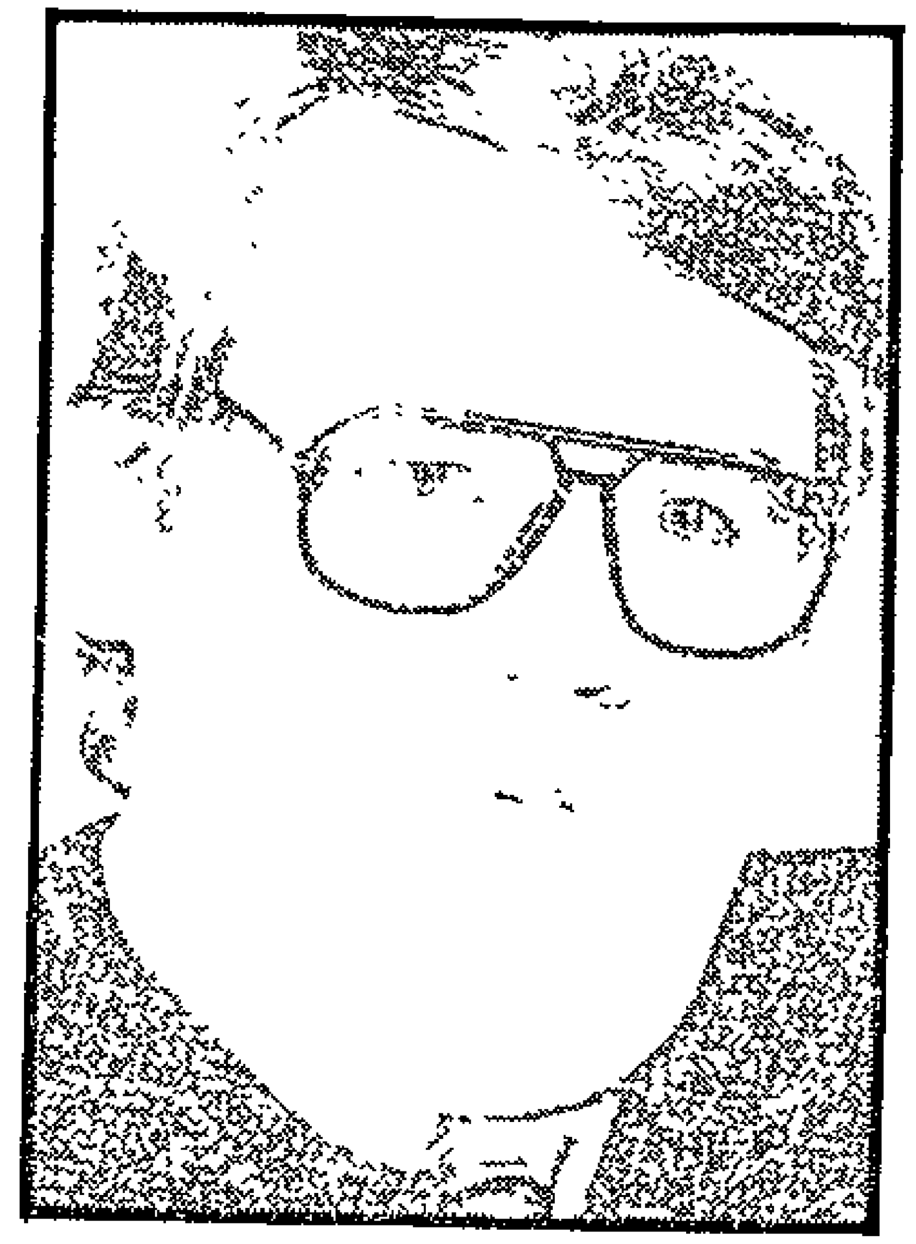
The other and more immediate concern is the effect Bankorp's remaining financial difficulties will have on Absa. Bankorp has been struggling for many years to overcome the burdens of non-performing assets and doubtful debts inherited from TrustBank.

In its efforts to rescue the floundering group, Sanlam has invested about R2bn over the past two years and CE Piet Liebenberg was brought in in 1990 to restore its health.

The bulk of the rationalisation has been completed. Capital and liquidity bases have been restored and a more streamlined and disciplined business structure is in place. Last year the group transformed losses of R378,5m into an attributable profit of R48,8m.

However, it made an additional "abnormal" provision of R100m as a "precaution against a progressive worsening in the economy". Stockbrokers interpreted this as a sign of management's continuing concern about the quality of the advances book. Although results for the December 1991 year-end have not yet been released, there is concern that the bad debts position could have worsened as a result of the prolonged recession.

Absa CE Piet Badenhorst set out to dispel this concern yesterday, saying that although a "due diligence" study had yet to be done, the examination which Absa had already made of Bankorp's bad debt situation indicated that the risk was acceptable and that adequate provision had been made for bad debts.



☐ DALING

Badenhorst said the benefits of the merger would definitely start flowing through after the first year. He referred to Bankorp's technology and banking computer systems as being one of the main benefits to Absa. Sankorp CE Marinus Daling also stressed this point, saying that the merger would reduce Absa's technology expenses and keep it abreast of local and international developments

Another major benefit will be the increased access Bankorp gives Absa, which is strong in the mortgage market, to the hire purchase and instalment credit sectors. Absa currently has 11% of the market in instalment credit and 15% in HP. The merger will push these shares up to 31% and 32% respectively, placing it ahead of Stanbic, the current market leader, according to analysts.

The deal will also help to resolve Bankorp's top management and succession problems. The group lost many senior managers before and after Liebenberg's appointment last year. Some left of their own accord, while, for others, departure was involuntary. Liebenberg also had to tighten controls over managers and executives whose approach to banking had grown lax. While the rationalisation undoubtedly strengthened Bankorp's top management team, Liebenberg conceded in a recent interview that there were some big gaps in top management, one of which has since been filled by the appointment of former JSE president Tony Norton as Senbank CE.

Ultimately, observers say, the depth of management will be vital to the success of the deal.

There are a number of significant side-effects to Absa's acquisition of Bankorp.

The deal will forge a powerful link between Sanlam and Rembrandt, two investment giants which, in spite of their cultural affinities, have been adversaries in the past. Both parties have confirmed that in due course Sanlam, through its investment arm Sankorp, and Rembrandt, through its control of major Absa shareholder Universa, will each own 25% of the enlarged banking group.

Another possible consequence of the deal is that Sankorp's acquisition of Rembrandt's and Absa's combined 58,7% stake in Momentum Life could trigger the start of a reorganisation in the life assurance industry. Daling confirmed yesterday that the Momentum transaction was aimed at preventing an internal company competing with a major shareholder

Where does this leave Absa's interests in Sage Life and the 30% of Commercial Union it inherited from United Holdings? Some analysts believe they may go the same way as Momentum, or else be hived off into a separate company controlled by Sanlam and Absa. Badenhorst is adamant this will not happen.

Yesterday's market response to the deal was not favourable. Absa's share price fell during the day, but there were plenty of buyers at the lower levels. Only time will tell whether the financial services giant has bitten off more than it can chew.

Banks ease agony for homeowners

STAR 30/1/92.

By Derek Tommey (58)

The three-to-four percent drop in interest rates in the money market in the past few months has finally worked through to mortgage rates.

First National Bank has cut the rate of interest on its bonds by half a percentage point to 19,5 percent and Standard Bank by one point to 19 percent from March 1. Other banks are expected to follow suit.

Johan Westraat, deputy MD of Nedbank, said yesterday his group would cut its rate, but no decision on the size of the cut had yet been taken.

Mike de Blanche, MD of United, which has the biggest mortgage book of all banks, said his group would discuss the matter today.

The lower mortgage rates are not expected to lead to any reduction in commercial banks' prime lending rates.

The prime rate is linked to the Reserve Bank's discount rate. Inflation is still high and likely to be exacerbated.

The Governor of the Reserve Bank, Dr Chris Stals, is believed to be reluctant to lower the discount rate right now, should money supply increase.

However, there is considerable speculation that the Reserve Bank might announce a discount rate cut immediately prior to the Budget on March 18 to increase the stimulatory impact on the economy of any tax cuts that may be announced.

Eric Tomlinson, general manager of Standard's home loan division, said the build-up of liquidity in the money market in the past few months had put downward pressure on deposit rates, allowing the bank to pass on benefits to its customers.

FNB MD, Barry Swart, said bondholders could take advantage of the reduction by either reducing their monthly instalments or by maintaining their payments at existing levels, which would enable the bond repayment period to be reduced.

The cut in rates will come like a breath of fresh air to hard-pressed housebuyers.

The steady increase in mortgage bond rates from 12.5 percent in 1987 to a peak of 20.75 in 1989 imposed a heavy burden on individuals.

Although the rate dropped one percentage point to 19,75 percent just under a year ago, the introduction of VAT saw the rate again rise to 20 percent.

The one-point cut by Standard will reduce the monthly repayments on a R50 000 bond by about R40 a month and on a R100 000 bond by about R80 a month.

Standard has a mortgage book of R8 billion, with another R1 billion in the pipeline, so its cut will reduce its revenue by about R80 million a year.

FNB's cut of half a point on its book of R5,5 billion will cost it about R27,5 million a year.

The Reserve Bank says financial institutions have about R60 billion out on mortgage. A full one percentage point reduction in mortgage rates would cost them together R600 million a year.

Bank is positive about growth

(58)

Sowetan

24/1/92

By JOE MDHLELA

INVESTEC Bank Limited has expressed optimism about the long-term growth prospects of the economy.

The bank's latest *Focus on the Economy*, released last week, suggests that the economy is "bottoming out".

"Although the anticipated upturn will initially be weak, there is scope for the economy to gain momentum and enter a strong, sustainable long growth phase," the report says.

The report, which was compiled by the bank's team of economists, suggests that the reduction of the bank rate was on the cards following improved inflation figures and weak aggregate demand.

"The low rate of money growth and weak demand, combined with a mix of lower wage growth and increased labour productivity, suggests there is scope for a significant decline in inflation during the year."

The report predicts that an inflation rate of 12 percent by the end of the year seems reasonable at this stage.

R50-bn at stake as bond rate war hots up

(58) (

STAR 31/1/92.

By Magnus Heystek
Finance Editor

Absa's planned amalgamation with Bankorp is the spark that has ignited an outright bond war between the major players.

First National Bank, which only a week ago denied there was any rate cut in the offing, stole a march on the market on Wednesday by announcing a 0,5 percentage point drop in its mortgage rate.

Standard Bank, which had also dismissed the possibility of a cut by saying it would take its lead from the Reserve Bank, was stung into action and cut its rate by a full one percent hours later.

FNB had no option but to match Standard's rate and the rest of the financial institutions, including Absa, followed suit yesterday.

A spokesman for FNB tried yesterday to downplay the rate-cutting, saying it was not a bond rate war.

But make no mistake, war is declared, which should delight all homeowners.

In addition to a fierce interest-rate competition among financial institutions for a slice of the R50 billion-plus mortgage market, institutions are aggressively wooing clients away from one another, offering to pay half, and in some cases all, legal and transfer costs involved.

In most cases this would be linked to the transfer of all other kinds of banking accounts and, in the cases of small businessmen, even their business accounts. This has great long-term advantages.

Home Loans Division

Bond Amount	Term (yrs)	Repayment @ 19%	Repayment @ 20%
R 50 000	20	R 810,34	R 849,41
R 75 000	20	R1 215,51	R1 274,12
R100 000	20	R1 620,68	R1 698,82
R150 000	20	R2 431,03	R2 548,24
R200 000	20	R3 241,37	R3 397,65

Printed 30th January, 1992

What the one percent drop in mortgage rates will mean.

While the base rate is now down to 19 percent, most high net-worth clients are in a favourable position to negotiate even better interest rates.

The potential in the market has been quickly recognised by Cape-based Board of Executors (BOE) which yesterday announced it would be entering the home loan market, pitching rates at 17,5 percent to 18,5 percent — comfortably below the reduced rates announced by other financial institutions.

But the loans will be granted only to selected borrowers, depending on their credit ratings.

BOE Merchant Bank assistant general manager Richard Harman said the new service was aimed at the upper-income group, which was able to provide the security of residential property worth a minimum of R500 000. Clients must have a net worth of a similar amount.

Spokesmen for the residential property market were quick to see an upturn in prospect but others suggested it could be a little premature.

The market, especially the top end (R500 000-plus), is still suffering from the combined effect of high interest rates, reduced company profits and an overhang of properties.

"In this price range a great number of people still have to decide whether they are going to stay in South Africa or emigrate," Neville Berkowitz, leading property economist and a speaker at the forthcoming Allied Bank/Saturday Star personal finance seminar, said yesterday.

"This has led to a situation where there are more sellers than buyers."

But a factor sustaining the market at the lower-to-middle end (anything up to R250 000) is the shortage of affordable housing in certain areas, combined with pressure from non-whites who can now afford to buy in areas previously denied to them.

This is serving to underpin the market.

It is also the area of the property market where the relief brought by lower interest rates will be greatest.

'Cuts only a competitive exercise'

CAPE TOWN — The cut in bond interest rates was "only a competitive exercise" and totally insignificant, the managing director of a large real estate agent said in Cape Town yesterday.

The difference in repayments of one percent on each R10 000 worth of bond amounted to only R7 a month, said Samuel Seeff of Seeff Residential Properties.

"The fact of the matter is that these two banks have thousands of bond clients who are already receiving preferential interest rates for selected borrowers like doctors and professionals, most of whom are already paying only 19 to 19,25 percent interest," Mr Seeff said.

Although it appeared that the interest cuts were the start of a rate war, it would only become relevant to the market as a whole when the official bank rate was cut by the Reserve Bank, resulting in a reduction in the Banks' prime rate.

He emphasised that psychologically the cut may have a positive effect on buyers confidence, but he felt this was unlikely to be "very stimulatory". — Sapa.

Shareholders' need to know

FM 31/1/92

(58)

Ron Howroyd is an actuary who was retained by AA Life until his contract was prematurely cancelled early in 1991. He has followed the problems at Avins with professional interest.

Shareholders asked to subscribe to a rights issue are entitled to sufficient facts on which to base their investment decision. The Avins rights announcement offers no information other than vague gobbledegook about actuarial reserves and new business strains. More than half of the R46m being raised is to go to AA Life, a company whose financial position has been the subject of considerable controversy (*Economy* March 1 and November 29 1991.)

Shareholders are still waiting to be told the circumstances surrounding the transfer of R40m from shareholders' capital to actuarial reserves in June 1991. Shareholders are entitled to know what went wrong and who was responsible for the R40m under-provision in the reserves disclosed by an independent actuarial report.

Since the directors say it has not been possible to apportion this loss between the 1990-1991 accounting period and previous financial years, all the dividends paid by AA Life in recent years must be treated with suspicion: were they paid from earnings or capital? The interim dividend of R6m declared in February 1991 (which was queried by the *FM* at the time) is now admitted to have been imprudent and may have been in contravention of the Companies Act.

It is impossible for the shareholder to analyse what his investment will be worth, but this worth is reflected in the share price low of 65c.

The Avins rights offer refers to "embedded values", which is actuarial jargon for the value of future profits. Avins could be on controversial ground in introducing this concept. Have these embedded values been calculated? If so, why are the shareholders not being told their value? If they have not been calculated, how can the directors know the true financial position of the company?

It is becoming common practice overseas for life insurance companies to report embedded values. Without this information it is impossible for shareholders to reach any sound conclusion regarding the value of a life company's shares. Is it not about time that the reporting standards for SA life insurance companies were brought into line with international practice?

Because of the controversy that surrounds the recent dividend declarations by AA Life, the Avins shareholders need to be told how long the additional capital now being raised by AA Life is likely to last and what the immediate dividend prospects are.

The rest of the rights capital is to go to Crusader Life and Pegasus Life, a recently formed UK life company. Here again, more information is required.

No controversy has ever arisen regarding the finances of Crulife, but it is known not to be in a strong financial position — hence the need for new capital. However, anyone fancying an investment in Crulife would probably do best by buying Crulife shares direct, bypassing the Avins route.

With their present knowledge, Avins shareholders should take a cautious view of their rights. In the past, the shares of life insurance companies have proved a good investment and there seems little doubt that, with the backing of Anglovaal and with its new management, the Avins group will emerge from its current problems.

But, with three life insurance companies to finance, including the part ownership of a new one struggling to establish itself in the highly competitive UK market, the shareholders of Avins will need a long purse. It is inevitable that substantial additional capital will be required for some years.

This should present no difficulty to the major shareholders — unless they tire. But the small investor does not have a bottomless purse. And, unless his investment objective is to finance a wonderful investment for his great-grandchildren and he is prepared to back his judgment by putting in extra money as it is required, he might do better to find an investment with fewer problems and more immediate returns.

It might be kinder to all concerned were Avins to delist until the time when its component companies can be judged by normal investment criteria.

1 pc cut now, more to follow

Finance Staff STAR 31/1/92

The mortgage bond war intensified last night when most leading banks and building societies fell into step with the one percent cut in bond rates led by First National and Standard Banks.

Amalgamated Banks of South Africa announced that its United, Allied and Volkskas divisions would all trim interest rates to 19 percent from March 1. Nedbank and NBS also confirmed they were following suit.

A newcomer to the housing finance market, Board of Executors, is offering bonds to blue-chip clients as low as 17,56 percent.

The Perm and Trust Bank were expected to announce cuts today.

Homeowners can look forward to further drops in bond rates this year.

Yesterday, there was speculation that the Reserve Bank would cut the prime overdraft rate, which would mean lower interest charges for overdraft rates, hire purchase agreements and most other interest rate-linked financial arrangements.

The bank refused to comment.

Neville Berkowitz, a leading property economist, forecast that mortgage rates could be between 16 and 17 percent by the end of the year.

"On its own, the one percentage drop in mortgage rates is not significant, but it does have a major psychological impact on many cash-strapped homeowners.

"At least they can look forward to some more good news and further relief."

A bond of R75 000 will mean a reduction from R1 288 to R1 215 a month (saving R73). This increases to R140 a month for a bond of R150 000 (see graphic).

Some commentators said bond rates would have to drop by another two to three percentage points before the stagnant residential market showed a marked improvement.

● R50-bn at stake — Page 17

Monthly repayment of bond over 20 years

RATE	R50 000	R75 000	R100 000	R125 000	R150 000	R200 000
20%	R849	R1 274	R1 699	R2 124	R2 548	R3 398
19.5%	R830	R1 243	R1 660	R2 075	R2 489	R3 319
19%	R810	R1 216	R1 621	R2 026	R2 431	R3 241

Cheaper home bonds . . . how reductions in interest rates will cut your monthly repayments.

58

Two days left to win

Horror crash 'scam': Suspects still free

Sowetan

By SONTI MASEKO

THE two men accused of trying to make the deaths of their five victims appear as an accident, are still free. 31/7/92

According to survivors the two men, Mr Lucas Loubser and Mr Isak "Kobus" Kruger, who have been suspended by Sanlam, first insured their eight victims for more than R1 million

They then allegedly "caused" an accident near Witbank.

The minibus, into which the men had been loaded, plunged down a 30m ravine, killing five of the eight men.

Eastern Transvaal police spokesman Warrant Officer Andre van der Westhuizen confirmed that the police had not yet arrested the two men.

He said police had launched an intensive investigation into the case.

Sanlam yesterday confirmed it had suspended Loubser and Kruger.

It also offered to pay a total of R40 000 to the families of the eight crash victims "as a gesture of goodwill and to assist in defraying the funeral and medical expenses involved".

The insurance company's Mr Emil Linde said it would be "grossly unfair and totally wrong to link Sanlam, as employer, to the alleged private activities of their employees".

The news of the suspension came as Mr Jackson Mthembu of the ANC's Witbank office called on the insurance company to honour fully the insurance policies taken out on the lives of the dead men for the benefit of their families and compensate the others who were injured.

The suspension followed persistent newspaper reports on the allegations made by the survivors, Mr Lazarus Mmadi, Mr Samuel Matsimela and Mr Koos Skosana that the crash, on Sunday July 19, was not an accident.

Mthembu has reacted strongly to the news that the two alleged murder suspects were still on the loose and added that the "only logical conclusion" to infer was that the suspects had not been arrested because they were white.

He said the initial charge of culpable homicide in an incident where five people were killed was itself a gross irregularity, viewed in the light of what happened in the past in the Westdene bus disaster

See page 4

Bond war hots up as more rates fall

SHERIDAN CONNOLLY

THE bond war hotted up yesterday with SA's major banking institutions following First National Bank (FNB) and Standard Bank in cutting mortgage bond rates.

Absa said its Allied, United and Volkskas divisions would lower mortgage rates by one percentage point. The standard bond rate of 19% would apply to existing and new mortgages from March 1.

Nedbank deputy MD Johan Westraat said across-the-board bond rates would be reduced by one percentage point to 19% from March 1. The SA Perm said it too would reduce its mortgage bond rates and would give details soon. 31/1/92

Natal Building Society assistant GM Trevor Olivier said rates would be reduced in line with those of competitors.

FNB, the first institution to lower rates, announced a further half percentage point rate-cut, bringing its home loan rate in line with Standard's 19%. The second cut would be effective from March 2. 58

A spokesman for TrustBank, part of the Bankorp group, said a statement on the bond issue would be released today.

Capital market rates were steady yesterday following their sharp drop after FNB and Standard announced the first bond rate cuts. The Eskom 168 held out at 16,27% from its recent 16,37%. The RSA 2004/6 was steady at 16,78% against its 16,85% high on Tuesday. Volume soared to 2,3-billion from 866-million on Tuesday.

● Comment: Page 8

'No links with scam'

vMan 31/1-6/2/92

TWO men, EJ Kruger and Lucas Loubser, linked to the minibus death scam near Witbank have been suspended by Sanlam.

Five men died when the minibus plunged down a cliff and burst into flames. There were three survivors. The lives of the seven men had recently been insured and Kruger and Loubser were named as the beneficiaries. They stood to gain R1-million.

Survivors said Loubser had been driving the vehicle but was not in it when it crashed. Kruger was allegedly in another vehicle following the minibus.

Sanlam has denied any links with the alleged "private activities" of its employees. The company regretted the loss of life of the five young men and the injuries of the survivors and has contributed R40 000 to assist with funeral and medical costs.

According to the police, no action has been taken against the two Sanlam agents.

Two Sanlam men beneficiaries of crash victims' policies

BDay 31/1/92 (58)

ANDREW KRUMM

TWO SANLAM employees were the beneficiaries of life insurance policies issued to seven victims of a January 19 minibus crash in which five black men died, the company said yesterday.

Sanlam chief legal adviser Emel Linde said two Sanlam Witbank employees, Kobus Kruger and Lukas Loubser, were "definitely the beneficiaries of (all) seven policies issued to the crash victims".

An ANC-arranged news conference on Tuesday heard two crash survivors describe how the minibus in which they were travelling with six others, all employed by the two Sanlam men, was allegedly pushed down a ravine as part of an insurance "swindle" to collect on life insurance policies taken out in the men's names.

Five men burnt to death in the crash, and one of the three survivors is in the Witbank Hospital with serious burns.

Linde said Loubser and Kruger had insured the lives of four of the deceased and those of the three survivors.

One of the survivors, Koos Skhosana, told Tuesday's news conference that they met the Sanlam employees at the Pietersburg offices of the Manpower Department in November last year. They had signed employment contracts and "other" contracts to sell clothes in Pietersburg. The other contracts were later established to be insurance forms.

Skhosana said Loubser and Kruger had asked the victims to meet them at the department on January 2, which they did.

The inception date on the life policies was January 1 1992.

Linde disclosed yesterday that Sanlam had suspended the two employees. He said this meant Loubser and Kruger had been barred from all Sanlam offices pending the outcome of investigations.

Offering condolences to the next-of-kin, Linde also announced that "as a gesture of goodwill and commiseration" Sanlam had decided to contribute R40 000 to help defray funeral and medical expenses of the families involved.

Middelburg police said mechanical and forensic experts were investigating the scene of the accident. No charges had been brought yet against Kruger and Loubser.

Probe into interest on deposits

STAR 31/1/92.

By John Miller
Star Line

(56)

A move is afoot to force letting and estate agents to pay interest on the deposits taken from tenants.

According to the Estate Agents Board, estate agents were not obliged "to tell tenants that they can earn interest on a deposit".

Tenants must inform estate agents in writing that they wanted the deposit placed in a trust account, the board said.

This issue will be raised in Parliament shortly by Democratic Party spokesman for trade and industries, Brian Goodall, after he was contacted by Star Line.

Money collected on deposits runs into millions each year, with thousands being made in interest.

Retired bookkeeper Bernard Rosengarten began a campaign six years ago when he realised how much money agents were making "for nothing".

Mr Goodall said he would ask Parliament for legal clarity on this matter next week, and whether the Government intended amending the act.

"People are putting large deposits down and foregoing the loss of interest and this works out to a considerable sum over a number of years."

BoE offers loans to the rich

CAPE TOWN — Board of Executors Merchant Bank has entered the home loans market for the first time but will only be serving the rich who will be offered below market rates. B/Day 31/1/92

The ultimate aim is to offer rates at 90-95% of the prime overdraft rate, but until prime rates fall to more realistic levels, BoE will use the First National Bank (FNB) mortgage bond rate as a yardstick. It will offer a lower rate of between 17,5% to 18,5% compared with FNB's latest rate of 19,0%. (58)

The merchant bank's assistant GM Richard Harman said yesterday that bonds would only be granted on a property with a minimum market value of R500 000 which was situated in a prestige residential suburb.

Clients would have to have a net worth of about R500 000 and a net after tax income of at least two times the interest cost of the bond. Only bonds of over R250 000 and up to 75% of the market value of the property would be granted.

Harman said only the top 10% of the entire home loan market, worth about R3-4bn annually, would fall within the bank's criteria.

He added that the facility would be ideal for property speculators.

"Our's is a niche market where we have identified a specific mortgage bond finance requirement — that is, as a simple loan

LINDA ENSOR

against the tangible security of their property, with the proceeds of the loan being used in any way that the borrower may require."

Clients would have the option of suspending repayment of the capital for the first five years of the loan, thereby freeing for investment the funds which would normally have been used for capital repayment.

"If a client does elect to repay capital, we are prepared to readvance the funds at any time," Harman said.

He noted that the lower rate offered would result in significant savings. For example, a 1,5% drop in the interest rate payable on a 20-year, R300 000 bond would result in a total saving of R84 386, or R351,61 per month.

If these funds were used to reduce the bond, then the term of the bond would be slashed considerably from 20 years to 12 years and 11 months.

Alternatively, if the funds were invested at an after-tax return of 15% compounded monthly, the borrower would accumulate a lump sum equal to R526 444 at the end of the life of the bond.

BoE Merchant Bank, established last year, has capital reserves of about R55m. It is involved in the money market, asset trading, corporate loans, corporate finance and now home loans.

METROPOLITAN LIFE

Fm 31/1/92

Trade transformation

Activities: *Long-term insurance, primarily to lower-income groups.*

Control: *Sanlam 49%.* 58

Chairman: *W S Pretorius;* ~~*MD:*~~ *M L Smith.*

Capital structure: *67m ords. Market capitalisation: R938m.*

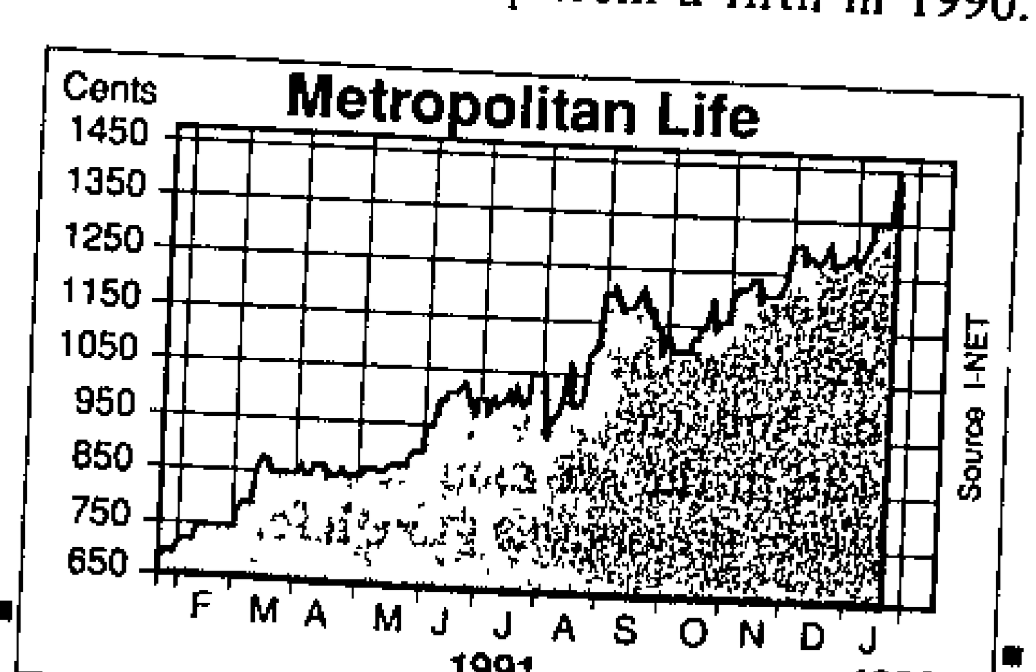
Share market: *Price: 1 400c. Yields: 3,2% on dividend; 5% on earnings; p:e ratio, 20; cover, 1,6. 12-month high, 1 400c; low, 680c. Trading volume last quarter, 1,47m shares.*

Year to Sep 30	'88	'89	'90	'91
Total assets (Rbn)	1,92	2,57	2,99	4,12
Premium income (Rm)	341	438	546	703
Investment income (Rm)	165	217	273	317
Earnings (c)	36	45	56,5	70
Dividends (c)	24	30	37	45
Net worth (c)	165	180	199	426

Share price performance was relatively poor until July. It was tightly held by Sanlam and there was little trade. There was a transformation from August, when Sanlam placed 10m shares with institutions and underwrote a R186m rights issue Its stake fell from 72% to 49% and Metlife has become highly tradeable — at least by JSE standards. More than 2% of issued capital was traded during the past quarter and the share has appreciated about 50% in fewer than six months.

But this is not just a function of tradeability. Despite a nine-week strike in the first half, total income rose by 24% to top R1bn for the first time. Recurring premium income increased by a quarter to R650m, and total premium income by 29%.

Investment income was up a relatively modest 16%, mainly because of increased investment in equities, which yield significantly less than fixed interest stock, though they offer better capital growth. Shares have a book value of R607m, about a quarter of the total portfolio, up from a fifth in 1990.



Fm 31/1/92 (58)

The (largely black) customer profile makes Metlife potentially particularly vulnerable to Aids. MD Marius Smith says it has focused on developing products and implementing financial strategies that will allow it to maintain profit growth.

It was among the first assurers to begin planning, in 1987, for Aids. Products have been changed to protect policyholders and shareholders from financial loss. The position is based on data from much of the rest of Africa.

Moreover, policyholders are drawn from the more stable classes, such as teachers, nurses, civil servants and policemen. Just 5% of its policies are paid in cash and 85% by stop orders from employers.

The year saw a drive to sign up women policyholders, that included a seven-year discount on women's ages against the five years more common New products this year will include a Hospital Cash Plan and Major Medical and Dread Disease benefits.

Metlife is sensitive to criticism that life assurers do not invest enough in the communities they serve. It has completed shopping centres at Chlesville, Katlehong, Ennerdale and Mafeteng and office blocks in Umtata, Athlone and Butterworth. It is developing a shopping centre in Mamelodi and an office block in Windhoek. After year-end it also took a 17% stake in African Bank and that gives it board representation. Smith says the two will co-operate in future.

Neverthless, chairman Willem Pretorius criticises any move to force life assurers and pension funds to invest in socially desirable projects. He argues that it is unfair to single out the industry, which would amount to an indirect and inequitable extra tax burden Any subsidies should be provided from general taxes, he says. As it is, Pretorius considers there are already inequities in the system.

Pretorius says there is evidence of a slowdown in policy writing and an increase in surrenders that swallowed up 12,1% of premium income (1990: 11,2%).

Metlife sits on a p.e of 20 and dividend yield of 3,2%, similar to those offered by Southern Life and Fedsure, though more demanding than Momentum and African Life. Though African Life also specialises in the black market it has a more blue-collar profile and most collections are still in cash.

Metlife cannot isolate itself from the Aids threat but will be more than compensated by the increase in black teachers, nurses and civil servants. Metlife looks fully priced in the short term but is a buy on a medium-to-long-term view.

Stephen Cranston

FM 31/1/92

EAGLE'S BYTE

S8

Technological advancement has its price, in the short term, at least.

Insurance company SA Eagle's decision to install an integrated computer network throughout its branches over the next 12 to 18 months will mean that about 20% of its work force — 300 to 360 people — will be laid off over that period.

Martin

"While we are deeply sorry to have to take these steps," says MD Peter Martin, "the company has a responsibility to remain a productive, profitable organisation and it has an obligation to offer a secure, exciting future."

Certain insurers have installed computer systems that give them a slight competitive edge. This encouraged companies such as SA Eagle to appraise technology and implement long-term restructuring programmes.

To assist personnel no longer required, the company has provided a "very fair redundancy package."

Re-employment has been offered if the need for more staff arises but this seems to present few opportunities.

The new system will manage the issuing of policies, process reinsurance, administer agents' ledgers, commission and general information together with claim payments and reinsurance recoveries. This will cut document handling, ledger entries and other labour-intensive tasks.

The short-term insurer says it will help the laid-off workers to handle tax and lodge claims with the UIF. It will also be flexible and tolerant over housing loans, give people time off to look for new jobs and provide counselling.

SA Eagle has held recognition talks with the Cosatu-affiliated Saccawu union but no agreement has been signed.

BANKING FM 31/1/92 (58)

Another mighty swallow for Absa

In less than a year, a former building society has not only become SA's largest banking group but now dwarfs competitors. Acquiring Bankorp in a R1,3bn share swap will lift Amalgamated Banks of SA's capital and disclosed reserves from R2,8bn to R4,1bn, and assets from R51,8bn to R80bn.

Nearest rival Standard Bank Investment Corp has capital and reserves of R2,2bn and total assets of R45,5bn. Nedcor has R41,6bn assets and First National R36,6bn. Figures are for the latest year-ends, which differ by up to nine months, so are not exactly comparable, but indicate orders of magnitude.

There is no doubt the deal will benefit the struggling Bankorp group, still some way from overcoming its many difficulties. It has performed poorly for a number of years and is burdened with nonperforming assets and doubtful debts inherited from TrustBank, now a division but formerly a subsidiary.

MD Piet Liebenberg, brought in in 1990 to rescue the floundering company, has applied discipline, restored a measure of order to the balance sheet and engineered a return to profitability.

In 1990, Bankorp wrote R386,5m off assets. Losses of R378,5m in 1990 were transformed into a 1991 attributable profit of R48,8m. But much remains to be done.

What advantages there will be for Absa are less clear, apart from Senbank's corporate business. Because of its United Building Society origins, Absa is strongest in the retail market, especially home loans.

The announcement refers to:

- ☐ Better use of management skills;
- ☐ Balanced market representation;
- ☐ More representative outlet structure;
- ☐ Compatibility of technology;
- ☐ Economies of scale; and
- ☐ Better positioning against foreign competitors.

Absa was already consolidating after last March's merger of UBS Holdings (holding company of United Building Society), Volkskas and Allied Group (also previously a building society).

There could be synergies in automation and branch networks but the group now has a surfeit of brand names — which Absa says will all be retained — and costly outlets. Absa describes Volkskas and Bankorp branches as geographically supplementary, but the fact remains that at most major shopping centres Absa will have four outlets.

There must be a stage at which bigger size as such brings no further economies of scale.

It may take some time to clarify all the insurance interests involved.

Sankorp will acquire the interests of Absa and Rembrandt Group in Momentum Life, respectively 30% and 28,7%, for about R150m, and make an offer to Momentum minorities in due course. On the other hand, Sankorp's 86% of Bankorp will be diluted to 21% of the enlarged Absa in the short term.

Ultimately Sankorp and Universa (the latter owned 40% by Rembrandt, 40% by the Mines Pension Funds and 20% by Sage Financial Services) intend to have equal interests of 25% in Absa.

Sanlam already controls Metropolitan Life, geared largely to the black market. It will now add Momentum, which originally entered the Absa stable alongside Volkskas. As Momentum, which is to continue under present management, has a largely Afrikaans culture, it would be possible for all three insurers to cohabit in the same group.

That leaves Sage. There is no mention of Sage Life in the statement and Sage sources say it is too early to speculate about any changes involving that group's life interests. These are now held by AIH, in which Sage Holdings owns 51% and Absa the balance. It's an arrangement that could be preserved.

Clearly Sage chairman Louis Shill has done well for his group: when the dust settles, Sage Financial Services will have an effective 6,25% interest in the enlarged Absa.

Absa has other insurance interests. Both United and Allied have subsidiaries handling mortgage-related business, and Absa inherited 30% of Commercial Union from United.

Bankorp shareholders are to receive 100 Absa shares for every 360 Bankorp, and the announcement says this values Bankorp at 312,5c, with Absa at R11,25. In practice, with Absa's Tuesday's closing price of R11,40, Bankorp is valued at 316,7c, a 7,3% premium on its own Tuesday close of 295c — hardly a bonanza for Bankorp shareholders, though the quality of their holding will obviously improve enormously.

Liebenberg will join the Absa board as vice-chairman and join (former Volkskas MD) Danie Cronje as Absa deputy CE. This will nominally leave him reporting to Absa *eminence grise* and CE Piet Badenhorst. Not the least interesting point to watch will be how these two strong (and capable) executives survive in one boardroom.

But of more strategic importance is how others react to Badenhorst's swoop. To catch up with Absa will now require a merger of major players; swallowing a minnow (of which few are left) will not suffice. ■

SA Eagle flies in the face of adversity

58

B Day 31/1/92

SEAN VAN ZYL

SHORT-term insurer SA Eagle has reported a 46% rise in attributable earnings to R34,9m for the year to end-December, one of the most difficult in underwriting.

Earnings came in at 287c (1990: 198,5c) a share of which a total dividend of 165c (150c) a share has been declared. The dividend cover has been lifted to 1,7 times from 1,3 times the previous year.

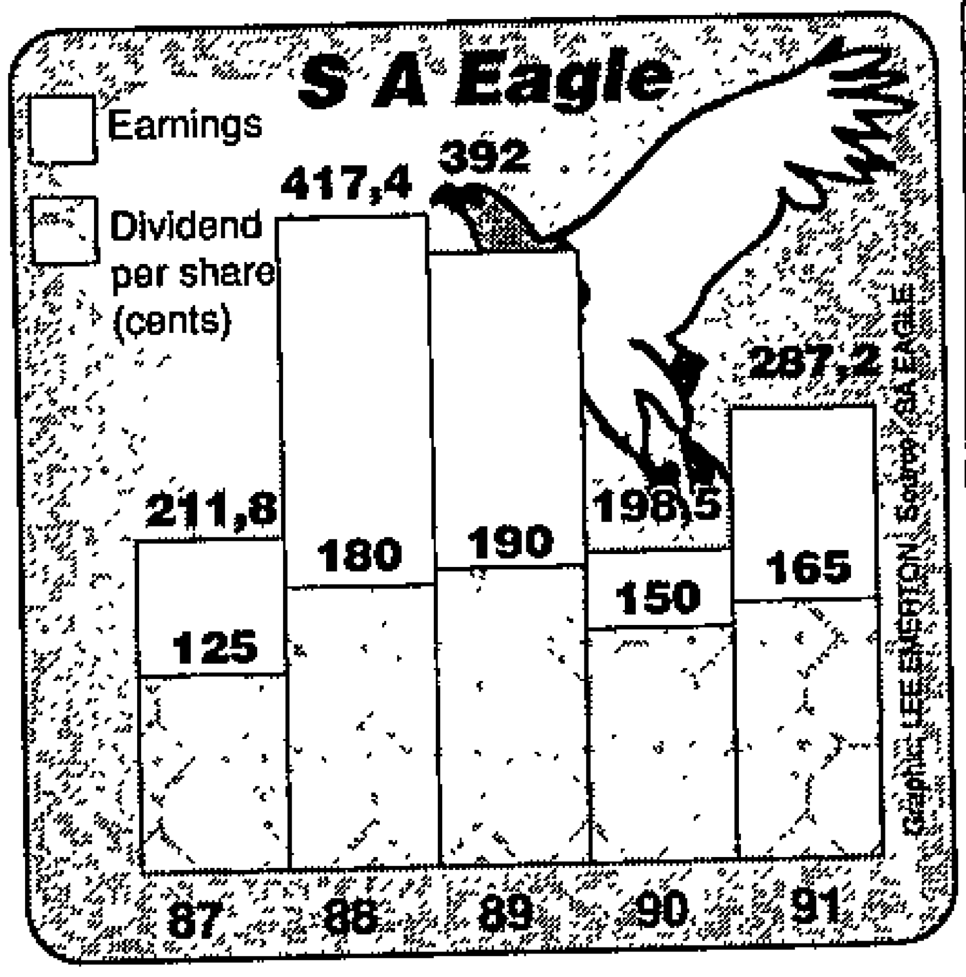
MD Peter Martin said the insurer's strong performance was due to a lack of major catastrophe claims and the improved monitoring of claim incidence relative to premium inflows. Although the rate adjustments introduced during the year resulted in some loss of business, SA Eagle's net premium income climbed by 23% to R724,5m (R589,2m). Gross premiums came in at R881,4m from the previous year's R728,5m.

Higher rates and lower claim incidence brought the insurer's underwriting loss for the year down to R831 000 from 1990's alarming R36,8m loss. As a result, SA Eagle's solvency margin has increased to 91,5% from 82,6%.

While rates appeared satisfactory in most classes of risk, Martin warned that commercial rates, particularly on fire and weather risks, were still too low and "rates in this area will need to firm before we can feel comfortable".

Martin said that SA Eagle's motor account was the only class of risk to show a loss. He felt domestic motor rates were adequate at present although insurers might be forced to adjust fleet business rates in future. He said that with increases in motor repair/maintenance and prices of vehicles running at about 20% a year, motorists could face an inflationary adjustment in rates in the second quarter.

Martin said household rates seemed adequate to cope with the level of crime while



its industrial account reflected a modest surplus. The close of the 1988 marine and aviation account also showed a profit for the year.

The insurer reported a modest increase in investment income, derived from dividends and interest earned, to R54,7m (R52,4m)

Total assets also exceeded the R1bn mark for the year, largely boosted by the appreciation of its investment portfolio, which rose to about R900m. The investment portfolio, based on market value, climbed by R439,4m above book value for the year. As a result, the insurer's net asset value rose by 35% to R54 (R40) a share.

Martin said the implementation of the company's on-line computer system during the coming year would result in cost benefits and improved productivity.

SA Eagle would rationalise its number of employees once the system became operative throughout its branch network. "Unfortunately, a number of job categories fall away and this will result in some staff becoming redundant over the next 18 months as the system goes live at branches," Martin said.

SA Eagle's share price 'foresaw' good results

Star 31/1/92

By Magnus Heystek

If the JSE is looking for another indication of possible insider trading, they should look no further than the share price of SA Eagle which today reports vastly improved results.

On Wednesday its share price suddenly jumped R2 to R27 a share, joining the list of the top 10gainers of the day.

And, surprise surprise, the company today reports a set of sparkling results.

There have been a number of cases where share prices have shown sudden movements, up or down, before a company announcement. These clearly illustrate that, despite all the effort put into stamping out insider trading, this practice is still rife.

SA Eagle Insurance put in a credible performance for the year to December, reducing its underwriting loss from a staggering R36,84 million to R831 000.

The company says the reduction in the underwriting loss can be ascribed to two factors — the adjustment of rates charged for risks and close monitoring of costs and incidence of claims.

Investment income benefited from emphasis on income growth.

Although interest rates prevailing during the year were lower than in 1990, there was a 4,4 percent increase in income.

Net attributable income rose 45,7 percent to R34,94 million while the dividend increased to 165c a share, compared with 150c in the previous year.

The solvency margin increased substantially to 91,5 percent from 82,6 percent in 1990.

COMPANIES

Increase in Stanprop income

STANDARD Bank Property Fund (Stanprop) has posted a 21,2% increase in net distributable income to R53,933m from R44,5m in the year to end-December.

A 19,25c dividend a unit was declared, 12% higher than the 17,19c a unit declared in 1990. BDay 31/1/92

Stanprop increased its holdings in retail space and offices by 9% to R150m (41% of its holdings) and in industrial space by 3% to R72m or 19% of its holdings.

In line with its policy of moving out of the residential market, its holdings there decreased by 13% to R43m or 12% of its holdings, with specialised property accounting for 9% or R33m of the portfolio.

Cash funds rose 2% to R71m or 19% of the portfolio. Acquisitions totalled R45,2m,

PETER GALLI

with new developments started in 1991 totalling R12,9m. Disposals amounted to R90,675m, with cost being R37,2m, yielding a surplus of R53,475m. (58)

Recessionary conditions adversely affected occupancy levels. But apart from one vacant office block comprising 1,7% of the portfolio, vacancies were contained.

Management expected difficult economic conditions to continue in 1992 but expects earnings to continue to show growth. "The extent of growth will be affected by the continued rationalisation of the portfolio, prevailing interest rates and the timing of cash fund investments into initially lower yielding properties."

'Exempt stokvels from banking regulations'

SHARON WOOD and WILSON ZWANE 58

THERE was no doubt stokvels deserved exemption from the Deposit-Taking Institutions Act, National Stokvel Association of SA president Andrew Lukhele said earlier this week. B/Day 31/1/92

Speaking at an Informal Sector conference, Lukhele said: "Nasasa is keen on further discussions with the Reserve Bank on the condition that our members' interests are given a priority."

A Reserve Bank spokesman said Nasasa's stated willingness to attend the Reserve Bank stokvel workshop in mid-February was a positive development.

The workshop will seek a new approach to the regulation of informal financial institutions. Organisations involved in informal financing will present their views on whether co-operative banks and stokvels should be incorporated into, or exempted from, the Reserve Bank's regulatory structure.

Nasasa's approach to the regulation of stokvels was very similar to the approach suggested by the Bank, the spokesman said. The Bank suggested stokvels remain exempt from legislation and should be self-regulatory. Co-operative banks, however, should be exposed to a more formalised structure, similar to the legislation imposed on mutual building societies.

The Reserve Bank would act as a facilitator at the conference, giving suggestions but not directives and the final regulatory structure would be decided by the representative stokvel bodies.

"The convening of such a workshop is in keeping with the government's undertaking that input will be required from the stokvels before the new Deposit-Taking Institutions Act is finalised," Lukhele said.

MONEY SUPPLY

FM 31/1/92

58

Down to basics

The growth rate of the broad monetary aggregate M3 is decelerating — despite technical distortions still in the pipeline. Preliminary estimates of the two official measures of M3 for December show a rise of:

- ☐ 12,42% over 12 months (to R182,2bn), down from 14,48% in November and 15,75% in October; and
- ☐ 13,03% annualised, from the base of the current target year in mid-November 1990 (to a seasonally adjusted R180,5bn), down from 15,72% and 14,22%.

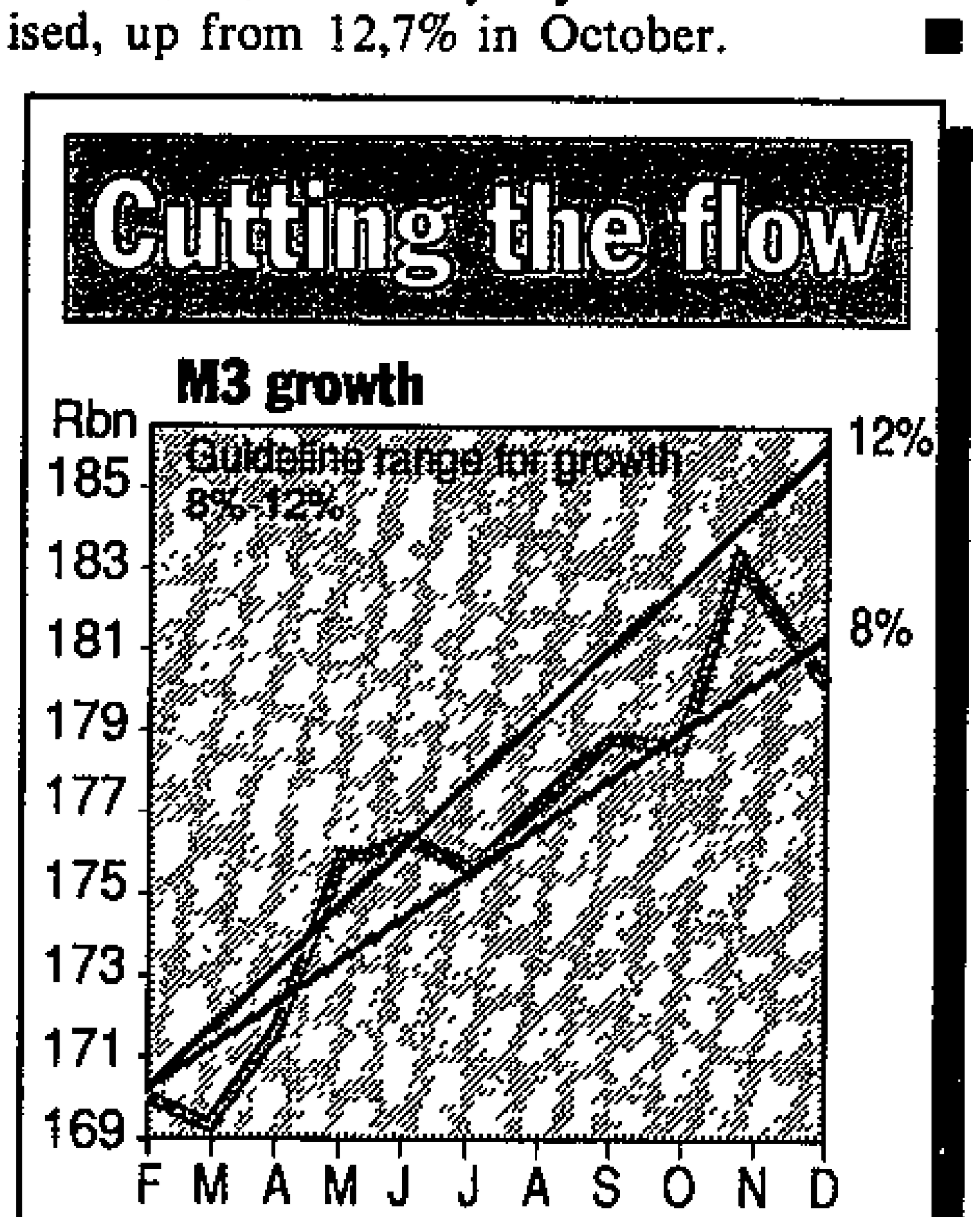
In February last year money supply figures were inflated following changes in banks' regulatory legislation. The effect will be eliminated only in this February. Meanwhile the fundamental trend in money supply can be measured by the seasonally adjusted annualised rate of growth between February and December. The Reserve Bank calculates this at 7,1%. This is also down on preceding months (see graph).

The guideline range for growth in the 1991 target year is 8%-12%. This range is under review by the Reserve Bank. A decision will be announced over the next few weeks and a new guideline will be established dating back to November. At that point figures for the current target year will be re-based (on the average level in the final quarter) and revisions published.

December figures for the other monetary aggregates will not be available until next month. In the 12 months to November:

- ☐ M2 grew 21,21%;
- ☐ M1 24,17%; and
- ☐ M1A 21,38%.

Figures available on credit creation show that in the 12 months to November credit extended to the private sector rose 17,78% and total credit extended rose 17,84%. These figures too were influenced by technical factors last February. Using that month as a base, credit extended to the private sector rose 13,3%, seasonally adjusted and annualised, up from 12,7% in October. ■



FINANCE — GENERAL

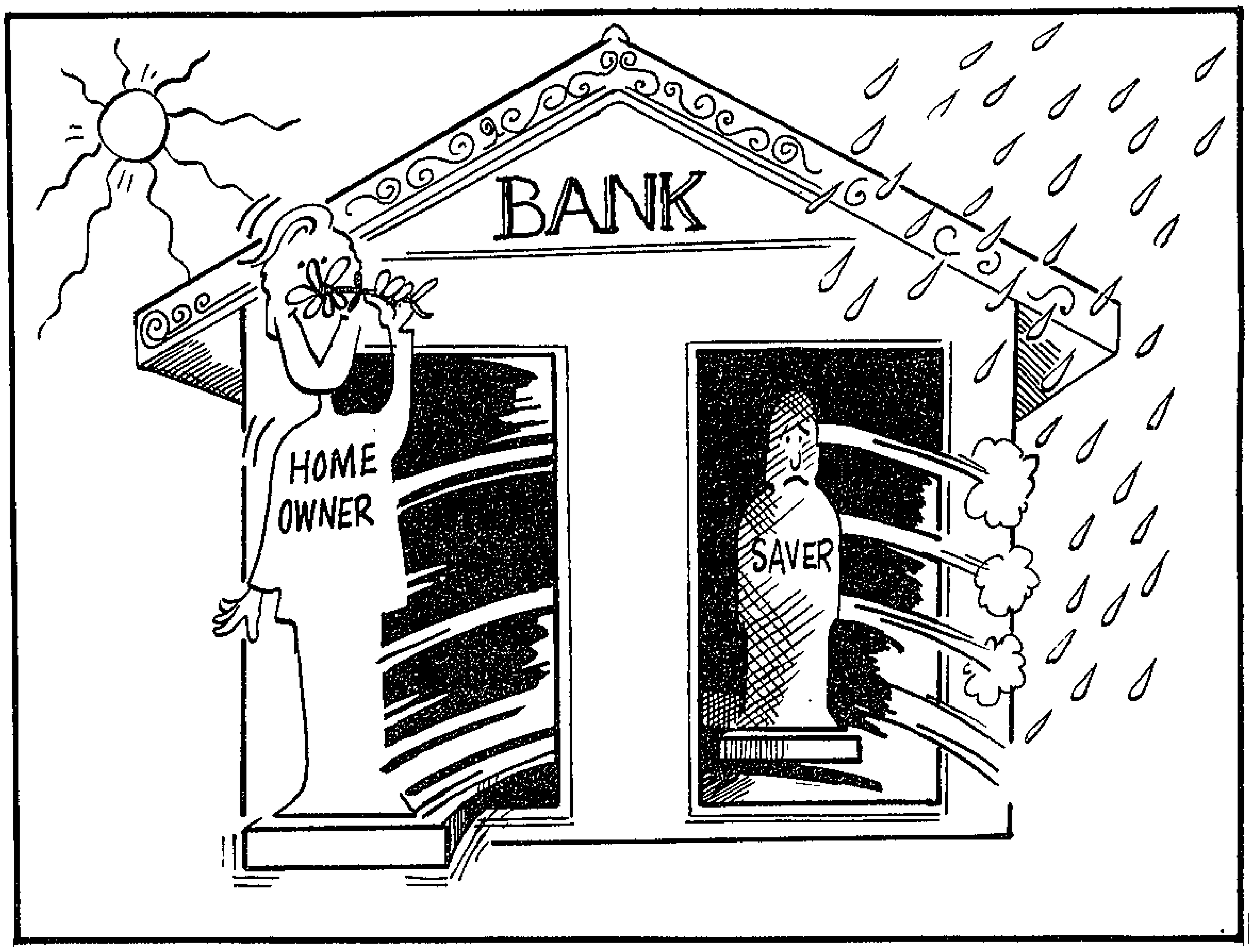
1992

FEBRUARY — MARCH

Sun could soon shine on savers

(58) STAR 1/2/92

DEREK TOMMEY



THE one percent reduction in house mortgage rates announced this week is good news for house buyers but bad news for savers.

Bankers forecast this week that the lower mortgage bond will undoubtedly be followed by a drop in retail deposit rates.

Mr Bob Aldworth, executive director, corporate finance at ABSA, said that it was normal practice for banks to try to match the drop in income from a cut in their lending rates by a reduction in deposit rates.

But although he was not directly concerned with ABSA's mortgage division, he doubted whether there would be any further reductions in mortgage rates for some time.

Mr Gregg Nowitz, manager of trust company Metboard, voiced a similar view, adding. "We firmly believe that deposit rates will continue to fall".

All this is bad news for savers, particularly with inflation still running at above 15 percent.

Inflation rate

Currently interest rates on 12 month retail deposits range between 15,5 percent and 16,25 percent. This is on a par with the inflation rate.

But should deposit rates drop by another one percentage point as now seems likely, the interest paid to savers will be less than the inflation rate. This means that even if you exclude tax, the returns will not be enough to offset the money-eroding effect of inflation. This means the saver will get poorer.

But most savers have to pay tax on their interest at rates rising to 43 percent, which means they will be poorer still.

However, savers should not give up hope of getting a substantial real return from their investments — and possibly even within the next 12 months.

They now have an important ally in the Governor of the Reserve Bank, Dr Chris Stals. He has made it clear on a number of occasions that he is determined to keep money market interest rates above the rate of inflation — and is doing so in spite of bleats from many people that this is harming their businesses.

One reason is that Dr Stals, as far as he is able, is keeping interest rates "real" in orderto help reduce the inflation rate.

For example, when interest rates are above the inflation rate it no longer pays to borrow money to speculate on inflationary price increases. This immediately reduces the money supply and also inflationary pressures.

Real rates of interest are also an encouragement to people to save — though with deposit rates now likely to drop below the inflation rate this incentive is absent at the moment. But should the inflation rate fall sharply in the coming months, which some people think highly likely, then the fortunes of savers could change dramatically.

This would be especially so if the drop in inflation is accompanied by an upswing in the economy which increased the demand for money and put upward pressure on all interest rates.

This could result in deposit rates moving to some 5 percent or 6 percent above the inflation rate. This is normal in many important overseas economies and from indications given by Dr Stals in the past, could well be his ultimate target.

This would obviously give a new impetus to savings — especially if this year's budget isalso kind to savers.

Although plans to ease the tax rates on interest from savings did not see light in last year's Budget, apparently Treasury officials are still looking at this matter.

Whether they succeed in finding a suitable scheme remains to be seen; but there does seem a chance that for the first time for decades "money in the bank" might be more profitable than having that "money in property" or "money in shares".

Absa shakes up banking sector

STAR 1/2/92

Inside Out

58

ANN CROTTY

NOT a bad week in terms of action — that's of course if you ignore the traded options market which is apparently what the investment community did this week.

The Kahn investigation came before court, briefly. And revealed all sorts of interesting information. More to come on February 14 when Kenny Fouche makes his next appearance in a Jo'burg court.

Then a really big financial group gets taken over by a really bigger financial group.

The Absa acquisition of Bankorp seems to have taken most people by surprise, including most of the people at Absa and Bankorp ... and Myles, who hadn't heard a murmur about it.

It was quite unlike last year's creation of Absa which seemed to drag on interminably with all sorts of fighting.

Myles reckons he's glad he doesn't work for Allied, United, Sage, Volkskas or Bankorp right now. He finds it's difficult enough to cope with all the change that comes with living in the "new South Africa".

The Bankorp team must have been taken aback a bit. At the release of the June '91 results Mr Liebenberg did say that they were not looking at a change in ownership for at least three years. But when a good deal comes along, it would be a bit silly to ignore it just to be consistent.

This is the last of the Inside Out series as Myles and Ann Crotty head for greener pastures.

Myles thought it was quite significant that it was only a few years ago, shortly before Mr Liebenberg left Nedcor, that rumours surfaced that he wanted to put United and Nedcor together.

And now, already there's talk that Absa is tying up with a major international bank.

The Rusfurn share price is coming under some pressure. The problem with consolidating a weak share is that you tend to give it more fall-down scope.

The joint cautionary from the Elcentre and Berzack teams immediately sparked speculation that the Mowszowski family (of Elcentre) were selling out.

Myles hadn't heard that speculation for about 18 months. But up 'til about 18 months ago, hardly a week went by that there wasn't someone talking about the Mowszowski's leaving SA — the most favoured destination was Australia.

According to this week's speculation it seems that the Berzack guys were going to issue shares to buy out the Elcentre guys. But it seems that by the end of the week, there was talk that the deal had fallen through.

The Digoco share price has been quite volatile recently. Myles is looking forward to the release of the interim results (to end-August '91). Chairman Mr Nel did indicate at the last agm that if the press and disgruntled shareholders would leave him alone for a while, he could produce some good results. With all the peace-and-quite he's had over the past several months, the results should be very good.

The strength of the TML share price has Myles severely tormented. All this talk of someone buying up Argus' 37 percent stake ... but he can't pinpoint the identity of the phantom purchaser.

The list of possibles, which gets longer with every R1 increase in the share price, includes Rupert Murdoch, Kerry Packer, the Pearson group (they're behind the FT), Conrad Black from Canada, Tony O'Reilly and, the ANC. A few dullards included one R Maxwell in their list.

And of course it could be someone who doesn't even feature on this list. Myles wonders if there is any significance in the fact that the Argus CE was just this week spotted in Egypt.

But what's really irritating, as Myles enjoys pointing out, is the fact that a lot of people in town seem to know about this deal — except the Star's finance section. It's a bit like being an employee at Absa, Bankorp or Momentum.

Latest on Bufcor is that an announcement will be out any day now.

Overdraft rates may also be cut — bankers

(58)

ARG 1/2/92

TOM HOOD
Business Editor

BANK overdrafts could become cheaper soon, bringing some relief to individual borrowers and saving millions in interest paid by companies.

Some bankers see this as an inevitable result of this week's open declaration of war between commercial banks which brought a cut in home loan rates.

One believer is Mr Piet Badenhorst, chief executive of Amalgamated Banks of South Africa (Absa), who became the head of the country's largest banking empire on Wednesday after Absa's R1,3 billion takeover of the Sanlam-controlled Bankorp group.

He sees the possibility of the prime overdraft rate (21 percent) coming down soon — even before the Reserve Bank lowers the rate it charges banks. Until now the Reserve Bank's refusal to cut its rate has stymied pleas for lower interest rates.

However, Mr Badenhorst, speaking on the TV programme Diagonal Street, commented: "We don't have to wait for the Reserve Bank."

An analyst pointed out last night that the money market was awash with funds because of a fall-off in borrowing and only intervention by the Reserve Bank prevented a natural drop in rates.

Possibly sensing the intensified banking competition since Absa's sensational takeover of Bankorp, Reserve Bank governor Dr Chris Stals warned last night he had no intention of reducing the prime rate until inflation was under control and declining.

He said after the central bank's board meeting he had no problem with commercial financial institutions reducing home loan rates as these were not linked to Reserve Bank rates.

Dr Stals said all rates were driven by market forces and only became a problem when banks had to borrow from the Reserve Bank at its official rates.

The market shortage was minimal and borrowings by banks were small with central bank intervention limited.

However, rates applicable to overdraft facilities, despite not being directly linked, were difficult to remove from the Reserve Bank rate.

Dr Stals believed that reducing the bank rate now would have a negative psychological effect, particularly with inflation still at 15 percent.

● When NBS last night became the latest building society to reduce its home loan rate by one percent to 19 from March 2, assistant general manager Mr Trevor Olivier said he was surprised major banks reduced their rates before the prime rate was reduced.

"This means that banking clients with credit cards, overdrafts or loans, who have interest rates at about 26 percent, may be tempted to use their home loans to consolidate their debts."

Ball to return to SA?

(58)

S/Times 2/2/92

By EDYTH BULBRING
Political Reporter

FORMER First National Bank MD Chris Ball could be returning from London to take up a position in a development bank initiated by the Rockefeller Foundation.

Mr Ball yesterday responded cagily to inquiries, saying that while he was involved on the committee which was set up to raise funds for a development bank, the project was still at an early stage.

CHRIS BALL
No comment

"There are a number of hurdles to overcome before the proposed bank's success was ensured," he said.

Asked if he had any plans to return to SA permanently, Mr Ball responded "no comment".

Mr Ball became CE of Private Bank Trusts Company after leaving South Africa in March 1989.

He was dragged into the spotlight over the funding of an ANC advertisment in 1987.

Only 2% real growth likely this year, says Southern Life

(58)

LINDA ENSOR

CAPE TOWN — There is little evidence of any growth catalyst for the local economy this year, Southern Life chief economist Mike Daly says in the latest Economic Comment.

"Domestic final demand growth will be muted for the first half of the year, after which somewhat lower inflation and interest rates will help improve the growth momentum. At most, 2% real economic growth for the year is likely after a small decline in 1991." BIDay 3/2/92

Rising unemployment and lower salary and wage increases will result in a further weakening in personal disposable income, Daly says. With the level of personal savings still low and the cost of borrowing money still high, he did not expect personal consumption expenditure to rise by more than 1,5% this year.

Daly expects a two percentage point drop in interest rates this year and a fall in the inflation rate to 12,5% by year-end to give an average rate for the year of 14%.

While export volume growth in 1992 should grow by about the same 4% achieved in 1991, he says, it will be constrained in the first half by the delayed improvement in international economic growth.

"The international slowdown is expected to be somewhat deeper and longer than initially thought and economic growth in the industrially developed countries during 1992 will only modestly exceed levels recorded during 1991."

The US economy in particular is struggling to emerge from recession, Daly says, and its continued low inflation does not hold out much promise for the gold price. He expects the profitability of the gold mines to remain under pressure and forecasts further retrenchments

Pact workers won't give an inch

EMPLOYEES of the Performing Arts Council of the Transvaal (Pact), unfairly dismissed in 1990, this week refused to be evicted from the houses which have been repossessed because they cannnot pay their bonds.

Thirty-five of the 300 unfairly dismissed workers have had their Mamelodi houses repossessed by Saambou and other financial institutions.

The banks agreed not to repossess the houses, or transfer them out of the names of the owners, pending the outcome of the workers' Industrial Court case against Pact.

In September last year the Industrial Court found the workers had been unfairly dismissed and ordered Pact to reinstate them and give them six months back-pay.

The workers, members of the Paper, Printing, Wood and Allied Workers Union, thought the threat to their houses was over. They intended to start repaying their bonds and negotiate with the banks about the arrears.

Their hopes were dashed when Pact decided to take the Industrial Court decision on appeal.

Meanwhile, most of the houses have been repossessed by the banks and in some cases, the houses have been resold and eviction notices served.

PPWAWU General Secretary Sipho Kubheka this week criticised Pact for trying to intimidate its employees.

"Even after winning the Industrial Court case, our members have had no relief. It is scandalous that a state-linked employer like Pact should treat its employees like this," Kubheka said.

The workers now refuse to leave their homes.

The Mamelodi Civic Association also supports their stand.

MCA media officer Pasty Molefe says the civic will take action to prevent people from being forcefully evicted.

Pact director Louis Bezuidenhout told City Press there was nothing Pact could do because they also faced financial difficulties.

"Lawyers for the union suggested that Pact pay the bonds until the outcome of the appeal, but this is impossible as we do not have the money," said Bezuidenhout.

"There is nothing we can do until the outcome of the appeal. We keep approaching the Industrial Court for a date, but we haven't heard anything yet," he said.

For one homeowner there was a sigh of relief on Friday when the Perm agreed not to auction his home. (58)

After City Press explained the situation to Perm on Thursday, they agreed to postpone the sale in execution of Silas Mathebula's home until the outcome of the appeal in the Industrial Court.

City Press put a series of questions to Saambou, but had not received a reply at the time of going to press.

Readers' Hotline

CPre 2/2/92

Helping you with your problems

☐ PO Box 548 Kengray 2100

It's a hair-raising wait for wigmaker

City Press 2/2/92.

THEATRICAL wigmaker Joyce Motaung has worked for Pact for the past 25 years.

This week Joyce, 50, sat anxiously at home, dreading being evicted from the house she has lived in for the past five years.

She knows her house has been sold on auction by Saambou building society, but refuses to move.

58

Court victory

"We are all in the same position. We have nowhere else to go. It is not our fault we are in arrears. We won our court case, but we are still not back at work," said Joyce.

"I have worked hard all my life to make a good home for my children and grandchildren. It would be very unjust for us to lose our home now," she said.

All the workers whose houses have been repossessed by Saambou and other building societies share Joyce's view. They refuse to vacate their repossessed houses and say they want to pay their bonds again as soon they go back to work.

I WON'T BUDGE ... Joyce Motaung.

'I will never leave here'

C/Press 2/2/92

SAM Nkosi, 53, has devoted his life to Pact.

A loyal employee with 26 years' service as a cleaner, he thought his future was secure as he approached retirement.

Now he has lost his house, most of his furniture as well as his job.

Nkosi took a housing loan with Saambou in 1987 to extend his small Mamelodi home.

He built on a lounge and dining room and put on a new roof.

When he was fired by Pact in 1990, he could not keep up his bond payments.

Saambou sold his house at an auction in April last year.

In October, Saambou attached all the furniture in the new part of the house.

"They tell me they have sold my house to somebody else, but I will never leave here. I have lived here all my life. My children were born in this house. I owned this house before I took the loan to extend it. They can empty it and take my furniture, but I am staying," Nkosi told City Press.

VALUE FOR YOUR MONEY

The road to R4m

58

S Times (Buss) 2/2/92.

By HENRIQUE ODENDAAL, a Fellow of the Institute of Life and Pension Fund Advisors, and senior manager, sales development, at Sage Life

CLIENTS often ask if they can gain greater personal benefit from business profits and reduce the tax burden on their companies or close corporations.

Tax deductibility can be maximised in several ways on contributions to deferred compensation and pension, provident and retirement annuity (RA) funds.

The best combination depends on the situation and objectives of the client. But the ultimate personal benefit to the business owners and the increased tax deduction can be dramatic.

Example

To illustrate the advantages of using these life-assurance retirement plans (the benefits are payable any time after age 55), I give the example of two directors of a small manufacturing company. They live comfortably and each has an annual taxable income of R80 000. The company has a sustainable annual profit of about R100 000.

They do not like their "annual donation" (their words) of R48 000 company tax. They want suggestions about how to reduce their company tax but leave their taxable incomes at the present R80 000. They have no retirement funds.

The first thing they can do is use RAs.

"But we want to remain on R80 000 taxable income — it's the company tax we want to reduce," they say.

They can reduce the company's taxable profit by increasing their individual taxable incomes by the amount of the RA contributions. This leaves the R80 000 intact (in fact, none of the proposals reduces their take-home pay by a cent — see table). But they want more.

Next, the company can contribute up to 10% of their increased remuneration to a deferred compensation plan for them and deduct the contribution for tax purposes.

They can also take advantage of a non-contributory provident fund, the company contributing 20% of their salaries.

Steps

The clients look contented. But one asks: "I don't suppose there is any chance of getting more?"

Of course there is — that is why FILPA can also stand for Fellow who Institutes Life and Pension Funds Admirably. Many little steps may be taken to achieve the big objective (totally misquoting Neil Armstrong).

They can introduce a contributory pension fund with no company contributions and add a further annual personal payment of R1 800 for past service. Their salaries will be increased by the amount of these contributions, as was done with the RA.

The clients look bewildered — each step has to be explained carefully. Eventually they smile, knowing that a tax-deductible total of R74 842 (R37 421 each) is being invested for them.

With 20 years to go to retirement, the clients ask what they will receive then. Their smiles grow broader when told that even without increasing contributions and assuming 15% growth a year, they would each have a fund of about R4-million.

Not much bond relief

Cl/Press 2/2/92 (58)

■ MONEY TALK

DO not expect too much relief from your bank or building society as a result of the cut in mortgage bond rates announced last week.

The time is simply not ripe yet for substantial declines of interest rates in South Africa. Our inflation rate is too high and our reserves too vulnerable.

The cuts, initiated by Standard Bank and First National Bank, are regarded in informed circles as part of a strategy to put the profit margins of their biggest competitor, Absa, under pressure. The United and Allied are part of Absa, which means that a large part of its assets consist of home mortgage bonds. So if Absa reduces its bond rate it could have a substantial negative effect on its profits.

In the case of Standard and First National mortgage bonds constitute a relatively small proportion of their business, which means the cuts will have little affect on their profits.

In any event, be grateful for small mercies if your bondholder is one of the rate cutters as it will save you a few rand a month in interest. If at all possible, resist the temptation to reduce your monthly instalment as earlier repayment of your bond is an excellent way of saving money.

Do not be tempted by the attractive offers to switch your bond to one of the rate cutters. Even if they are prepared to pay your costs it may well not be worth your while going through all the hassles to transfer your bond, insurance and other business to a new bondholder. In any case you will probably find that after a few months the rate will start to creep up again as the "rate war" subsides.

This brings me to another important point. If you have an overdraft, check regularly whether or not your bank is still charging the original rate agreed upon. They have a habit of quietly pushing up rates.

Most banks are prepared to supply you with your latest overdraft rate. If it is above the rate originally-agreed upon react immediately. It is most likely that your bank manager will reduce the rate as he knows his competitors are only too keen to get your business – provided, of course, you conduct your account in a responsible manner.

Rivals hit Absa where it hurts

(58)

S Times [Buss] 2-2-92

By CURT VON KEYSERLINGK

THE one-percentage point cut in mortgage interest rates could cost banking giant Absa about R240-million in lost revenue this year — directly off its profits.

Its closest rivals will get off more lightly, Standard "losing" about R80-million and FNB about R54-million.

These figures emerge from calculations based on the size of each institution's home-loan book and the assumption that each pays depositors an average of 16% interest.

The institutions are now borrowing at an average of about 16% and lending at 20% to home-buyers. That gives them a gross margin of four percentage points. But when bond rates drop to 19% on March 1 gross margins will fall to three percentage points.

This means that their gross margins in rand terms will drop 25%.

Hardest hit will be Absa — Standard and FNB have a relatively low exposure to home loans.

FNB's home-loan book of about R5-billion accounts for only about 14% of its total advances. Standard's book of about R8-billion is about 18% of advances.

But home loans from the Absa group, including newly acquired Bankorp, amount to about R25-billion — 40% of its total advances.

A far larger proportion of its business will have to bear the 25% reduction in margins.

United

Institutions, such as NBS and the Perm which previously operated as building societies, are even more vulnerable than Absa to a rate cut. Home loans account for about 80% of NBS's advances and 90% of the Perm's.

Analysts say one of the reasons Absa bought Bankorp was that it would to some extent offset its heavy exposure to home loans through United. Bankorp has only a small home-loan book.

Analysts say revenue lost through the lower bond rate will be regained if the Reserve Bank reduces bank rate.

Some bankers expect an announcement about bank rate in the next few months. One says it could come after the inflation figure for January — provided the rate is at least a percentage point below December's 16,2%.

The Reserve Bank reports that deposit rates have been falling since February 1990. As usually happens in such circumstances, banks have not reduced their lending rates at the same tempo. As a result their margins have been widening.

Analysts say the bond-rate cut is justified by fundamentals in the money market. But they acknowledge that the situation gave Standard and FNB an opportunity to hit Absa where it hurt most in exchange for receiving a less painful blow themselves.

The timing of their announcement shortly after Absa's takeover of Bankorp was probably not entirely fortuitous.

Absa officials were unavailable for comment

Danie Cronje back with old boss Piet

S/Times [BUSS] 2/2/92 (58)

By JULIE WALKER

SOME of the biggest personalities in banking came under one umbrella this week when Absa (Amalgamated Banks of SA) bought Bankorp.

More than ever before, it does not pay to burn one's bridges behind one in SA's small banking community. Good terms have been maintained over the years since Absa deputy chief executive Danie Cronje left the employ of Trustaksepbank and his boss Piet Liebenberg.

This week the two were nominated joint deputy chief executives of the banking group that becomes SA's No 1. Mr Liebenberg became chief executive of Bankorp two years ago after a spell at Nedcor. Nedcor bought Finansbank in 1986 to secure Mr Liebenberg as its chief.

Names

Absa was formed from the merger between United, Allied, Volkskas and Sage Financial Services a year ago. Bankorp houses Trust Bank, Senbank and Bankfin. Both groups have undergone rationalisation and uncertainty, particularly in staffing.

Even Mr Liebenberg has had to accept a demotion. He told Bankorp staff members this at a conference announcing the deal.

But, says Mr Cronje, it is not in the interests of the new group to operate in an atmosphere of uncertainty.

The trading names will be kept because of their importance to customers. As long as each can run profitably as a business unit, there will be no need to change.

Steered

There is room for rationalisation in areas such as marketing, administration, systems, treasury and other support services.

"Before the formation of Absa there were seven computer centres, now there are two," says 45-year-old Mr Cronje.

"Obviously we will look at what can be done, otherwise there would be no sense in the shareholders' agreeing to a merger."

One of the reasons for the merger is the broadening of Absa's spread of investments. This week's round of home-loan rate cuts, led by other banking groups, will not harm Absa as much as previously because its home-loan book is a much smaller percentage of the enlarged group.

"Five years ago, Piet Badenhorst realised how vulnerable the United Building Society was to the moves by banks to enter the home-loan market. That is why he took steps to broaden the United's base," says Mr Cronje, who came to Absa through Volkskas' inclusion after being chief executive there since 1988.

Mr Badenhorst steered United to its current position as part of an R88-billion banking giant. He retains the top slot at Absa.

The Bankorp takeover brings to Absa several key divisions complementary to Absa's strengths.

The JSE seemed nervous about the deal, initially selling Absa.

The concern is about the quality of Bankorp's debtors. Absa has bought Bankorp at 312,5c a share, a small discount to stated net asset value of 317c.

Barclays

Bankorp's major shareholder Sankorp had 86% of the scrip. Bankorp's stockmarket price was not relevant in the negotiations.

Sankorp and Rembrandt-backed Financial Securities will eventually each have about equal stakes of 25% of the enlarged Absa.

Mr Cronje says Mr Badenhorst approached Sankorp's Marinus Daling in November about the possibility of a deal. The parties thought about it over Christmas and talks resumed two weeks ago.

Also at Absa is former Barclays SA chief Bob Aldworth, now deputy chairman of Allied.

Tony Norton, outgoing president of the JSE and with a long career in merchant banking, is due to take over at Senbank.

Mr Cronje says: "It is an exciting challenge for all of us."

Time is on his side — 13 years junior to his co-deputy, Mr Cronje will be all fired up to be worthy of succeeding to the top spot of the nation's biggest group.

No 1 hangs on to its stake in RMB

STimes (Buss) By JULIE WALKER (58)

CONTRARY to market talk, Absa's direct and indirect stakes in Rand Merchant Bank have not been sold in the wake of this week's banking shake-out. 2/2/92

Absa houses two merchant banks now that it has taken over Bankorp, owner of Senbank. It already had Absa Merchant Bank.

Absa has a direct 13% in RMB which was held by the Allied Group. Allied became part of Absa last year. Absa also has a major slice of Sage, which owns another 26% of RMB.

Absa management declines to comment on whether the 13% stake has been sold or offered for sale. An RMB spokesman says he is unable to comment on the actions of shareholders.

But market talk is that the 13% is for sale — at a price. RMB is not listed, so a market rating is not visible.

One banking analyst suggests that in terms of the informal, over-the-counter market in RMB shares, Absa's 13% stake is worth between R32-million and R36-million.

It can be expected that Absa will require a premium on this value for its strategic stake. The analyst says RMB shares are always in demand because of the bank's excellent record.

MAN AT THE TOP

Morris Bernstein, time for laughter

S Times (Buss) 2/2/92 58

By JULIE WALKER

MORRIS BERNSTEIN: Doubts disappearing Picture: SUE KRAMER

AMID full boxes and empty bookcases Morris Bernstein finds time to laugh as he moves into the managing director's office at Fedlife.

"I've just been to a conference with the life-office staff," he says.

"I said good-bye to old friends I met only a day and a half ago. It was wonderful."

It is hard to imagine Dr Bernstein not getting on with anybody.

Fresh from Sage Life, Dr Bernstein accepted an offer from life-long friend Arnold Basserabie to run the life office of the expanding Fedsure group.

Drive

"Sure we talked long about whether there was room for the two of us, both being fairly high profiles.

"Until recently Fedlife was the major part of Fedsure. Now that the group has made alliances with Saambou, Investec and elsewhere there is a definite need for a group chief executive free of the day-to-day operational duties of the life arm."

It surprises that the R4,6-billion Fedlife is actually twice as big as Sage Life in terms of assets — perhaps an indication of the success of the image-promotional drive undertaken by Dr Bernstein in his two years at Sage.

He joined that group on returning from a brief emigration to Australia after many years at Southern Life.

"When I came back in 1989 I sometimes asked myself why I had returned. SA was on the road to nowhere — every news item was a disinvestment or an airline stopping flights here or yet another sporting links ban.

"That was before President De Klerk's day. Now, we're on the right road even if it is a bit rocky.

"There's bound to be a lot of jockeying for positions, but I'm really positive about some kind of settlement being reached."

He says he and Mr Basserabie will work closely together.

"We are more likely to err on the side of over-communication.

"I won't go into this job like a bull in a china shop. A life office's real assets are its people and I see it as a challenge to co-ordinate their roles."

China

Does he fear that life offices might be politically vulnerable in the new South Africa?

"The whole industry is aware of acting responsibly and doing what it can for the community. We do have the financial muscle and all the players are willing to provide funds — on a commercial basis.

"Our business is the creation of wealth and for many millions of South African policyholders it is the only avenue available.

"We recognise the need to be active on social issues and the industry is far more focused than it was five years ago.

"Corporate social responsibility is no longer a long-term nice-to-do issue, but one of short-term must-be-done."

Forces

Dr Bernstein ponders on what is needed to bridge the gap between the funds and their responsible social investment.

"When it becomes a commercial and not a political issue and the security forces can represent a representative government, then we will see some progress."

Dr Bernstein did not finish unpacking as I left — "Another meeting. Everybody here is so friendly.

"No I don't know the fax number — I haven't even found the fax machine yet."

BoE cuts into rates war

(S8)

SI Times [CM]

2/2/92

By FRED ROFFEY

THE Board of Executors has joined the bond war and, in a surprise move, is offering selected borrowers lower rates than are generally available.

The Cape Town-based banking group hopes to secure a niche in the market with loans of R250 000 and more for homes worth at least R500 000 in prime residential suburbs.

The rates are pitched at between 17,5 and 18,5 percent, according to clients' credit ratings.

According to BOE Merchant Bank's assistant general manager, Mr Richard Harman, other financial institutions offer rates of between 19 and 20 percent to most borrowers.

"A reduction of 1,5 percent in the interest rate payable on a 20-year, R300 000 bond saves R84 386 overall or R351,61 a month," he said.

Lower

The Board of Executors in Cape Town has had a number of applications. It is expected the scheme will be in force at BOE branches in other major centres by the end of the year.

The announcement comes as major banking institutions follow moves by First National Bank (FNB) and Standard Bank to cut mortgage rates.

Amalgamated Banks of South Africa (Absa) said its Allied, United and Volkskas divisions would lower home loan rates by one percentage point.

The new standard bond rate of 19 percent will apply to existing and new mortgages from March 1.

Nedbank is to reduce its bond rate to 19 percent from March 1. The SA Perm, Natal Building Society and EP Building Society are to announce their new rates soon.

Boost

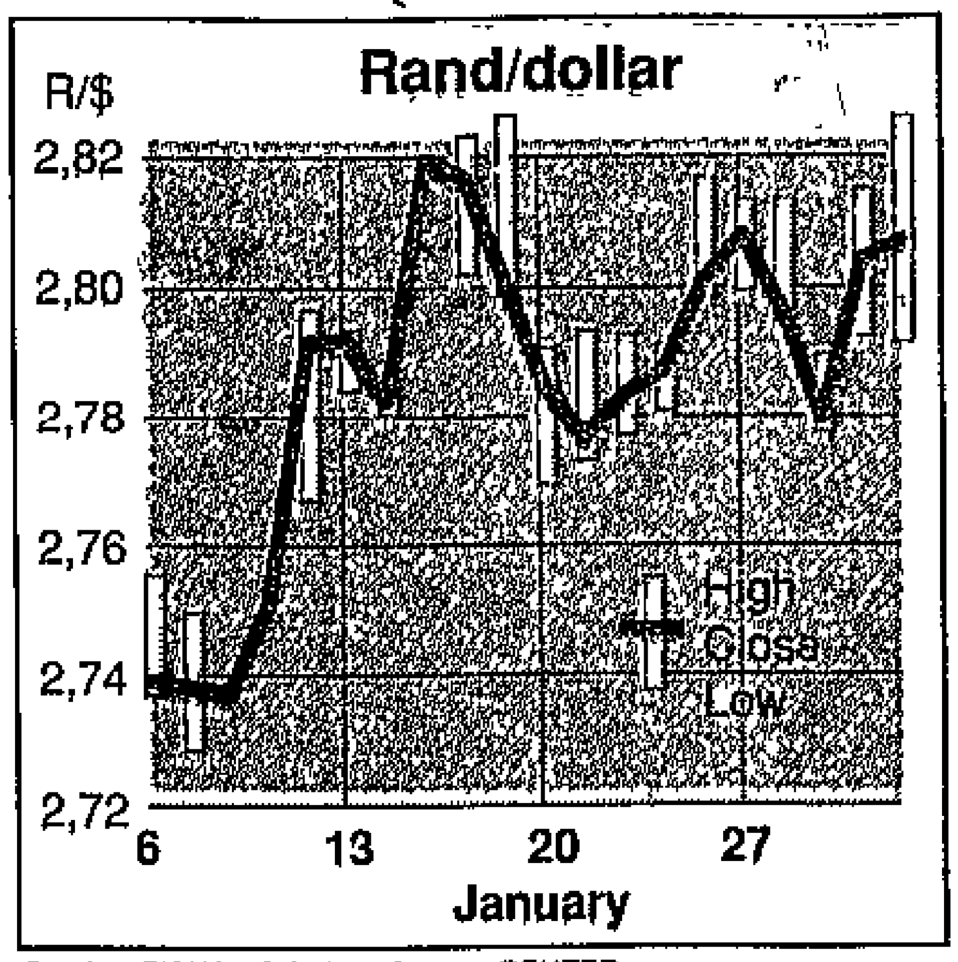
Some banking experts say the speed with which cuts are being introduced suggests concern about competition from Absa, which announced its R1,3 billion takeover of Sanlam-controlled Bankorp earlier this week.

The new financial services group is expected to grow into a R100-billion banking empire over the next few years.

It includes United, Allied, Volkskas, Trust Bank and Santam. The injection of financial muscle will give the group a competitive edge, particularly those sectors that are active in the home loan field.

The acquisition of Bankorp has boosted Absa's assets base to R87 billion, compared with Standard Bank's R55 billion, First National Bank's R44 billion and Nedcor's R42 billion.

Banks and building societies are to hold more head office meetings next week to discuss the developments.



Graphic FIONA KRISCH Source REUTER

Persistent signs of a weak US economy and disappointment surrounding US President George Bush's State of the Union address last week pulled the dollar down and saw the rand strengthen at mid-week. It closed slightly weaker on Friday at R2,8048 from Thursday's close of R2,7948 and up on the previous week's Friday close of R2,8113.

Bond cuts 'will not affect Bank rate'

TIM MARSLAND

58

RESERVE Bank Governor Chris Stals says he welcomes bank moves to drop bond rates, but this will not affect any decision to cut the Bank rate.

In an interview on Friday, he said economic indicators would have to "fall in line" before the Bank lowered its rate, currently 17%.

Indicators such as money supply and gold and foreign exchange reserves were moving in the right direction, but high inflation remained an obstacle.

However, the Bank would not necessarily be watching the consumer price index, due around February 18, to decide when to cut rates.

B/Day 3/2/92

"Things could change next week. I do not know myself when the time will be right."

The Bank was reluctant to cut the rate too soon, as this could have the psychological effect of having people believe it had given up the fight against inflation.

Stals was pleased most banks had dropped their bond rates, which reflected the relative liquidity in the market. It promoted healthy competition, and if banks could afford to cut their rates, they should.

☐ The Perm has joined other major financial institutions, and has reduced its home loan rate to 19% from March 1. — BDNS.

Public Deposits income falls to R31,7m

BI Day 3/2/92

LINDA ENSOR

CAPE TOWN — The Corporation for Public Deposits, which accepts short-term deposits from public sector institutions and is wholly held by the Reserve Bank, generated a net income of R31,7m (R35,6m) in the year to end March 1991.

The corporation had call deposit liabilities of R5,27bn (R5,32bn) at the end of its financial year.

Of the net income of R31,7m, R3m (R12m) was transferred to reserves and R28,5m (R23,4) paid into the State Revenue Fund.

(58)

The corporation's report was tabled in parliament on Friday. Depositors include the National Supplies Procurement Fund, the Department of Posts and Telecommunications, the Central Energy Fund and Equalisation Fund.

Most of the corporation's investments were in assets with maturity of less than a month

Investors seeking say over curators

LINDA ENSOR (58)

CAPE TOWN — A group of about 250 dissatisfied Masterbond investors will demand the right to sanction or veto the actions and recommendations of the group's curators when the curators submit their report to the Cape Town Supreme Court on Wednesday next week.

A postponement of the hearing may be requested to give their legal representatives an opportunity to study the report.

The creditors — mostly elderly with investments totalling about R10m — voted unanimously at a meeting on Friday in favour of legal representation at the court hearing. They also decided to request a full investigation of the financial affairs of former Masterbond chairman Koos Jonker and of the Jonker Family Trust.

Johannesburg attorney Allan Levin told the meeting he doubted whether the curators' report would satisfy creditors.

The general opinion was that nothing of consequence had been done since the takeover of the group by curators, he said.

He said creditors were dissatisfied because the curators had told them very little about what was happening to the group, and called for a commission of inquiry into the affairs of Masterbond.

He said those responsible for the collapse of the Masterbond empire should be made to pay. B/Day. 3/2/92

Levin questioned whether the authorities had taken necessary steps to protect investors from Masterbond's activities.

Allegation of 'silent apartheid' as white landlords refuse black tenants

Sowetan 3/2/92

58

Sowetan Correspondent

BLACK people seeking rented accommodation in elite suburbs near the city are being blocked by "silent apartheid" imposed by apartment owners.

Estate agents said some flat owners believed renting their properties to blacks could lead to overcrowding and rent boycotts and insisted white tenants be found.

A spokesman for Comp-U-Rent said most estate agents did not state that properties were exclusively for whites, but in fact some privately owned dwellings were so reserved.

"The majority of our clients are black and if agents or individuals insist on whites only, we refuse to include them on our lists of properties," he said.

Steer and Company director Mr John van der Spuy said his agency had not encountered a reluctance by apartment owners to rent flats to people who are not white.

"The only thing flat owners have insisted we check on is that the person who is renting an apartment can afford it. We also make sure the flat is not overcrowded," he said.

However, a 40-year-old receptionist who has been looking for a flat to rent for six months felt she was being discriminated against because she was black.

A computer letting agent had advised her that a particular agent was looking for a tenant for a bachelor flat in a block in Regent Road, Sea Point.

A white man who was moving out of the flat was told that she could not rent it because she is not white.

The agent said: "You must understand, it is not our decision. The body corporate has decided that no blacks are allowed to live there."

THE MONEY MARKETS by Sheridan Connolly

Dealers hope for cut in key discount rate

58

BDay 3/2/92

ACROSS the board cuts in mortgage bond rates by most major SA banks last week raised speculation about a possible lowering in the key discount rate, but once again, the Reserve Bank remained tight-lipped.

First National Bank (FNB) was the first to announce a cut in its home loan rate and was shortly followed by Standard Bank. With the bond war under way, most banking institutions were obliged to act in bringing bond rates into line at 19%.

Some dealers said the bond rate cuts were an attempt by FNB and Standard to challenge Absa's increasing share of the bond market while others saw it as a move by the banking sector to pre-empt an overdue cut in discount rate by the Bank.

In a similar scenario in March last year, the Reserve Bank lowered its discount rate one day after FNB cut its home loan rate. An easing in the prime overdraft rate followed the Bank's discount rate cut.

The money market has discounted for an official easing over the last few weeks, and rates have fallen steadily. All the relevant factors are in place and the market is ready and waiting for the Bank to move, a senior analyst said.

Money market conditions have seen the Bank actively pursuing open market operations in order to drain liquidity from the market and dealers say rates have been moving sideways while the market waits in anticipation.

Dealers said they expected rates to hold out at their current levels ahead of month-end. Rates have come down sharply in the last few weeks and cannot go much lower, they added. The small upward correction in the BA rate last week showed that rates had bottomed-out.

Reserve Bank Deputy Governor Jaap Meijer reiterated the Bank's intention to sit tight until there was a visible drop in the rate of inflation. Meijer hinted at a possible Bank rate cut but said there was only room for a half percentage point drop.

In the Bank's weekly Treasury Bill (TB) tender, the three month rate dropped to 16,02% as against 16.06% last week. Applications for the allotted R200m tender totalled R811m. The Bank said tenders at an average price of R96,005 were fully allotted. Towards the end of the week, the 90-day liquid BA rate was steady at 16,20% and overnight call rates were quoted in a 16,00%-16,75% range

Trading activity in the capital markets was boosted by the news of the lower mortgage rates, and rates dropped sharply — the Eskom 168 dropped to 16,28% from an earlier 16,40% and the RSA 2004/6 dropped to 16,78% from 16,85%. By the end of the week rates had edged higher with the E168 up to 16,35% and the RSA 2004/6 up to 16,84%.

● Simon Willson's column, The Week Ahead, appears on Page 6.

Sanlam: We won't pay out policies

(58) CT 3/12/92

Own Correspondent

JOHANNESBURG. — Sanlam would refuse to pay out insurance policies sold to seven men before the bizarre deaths of five of them last month, Sanlam chief legal adviser Mr Emel Linde said yesterday.

Witbank insurance salesman Mr Jacobus Kruger was quoted at the weekend as saying he would claim on the policies this week.

Mr Kruger and Mr Lucas Loubser are the beneficiaries of seven policies taken out by men to whom they had offered jobs. The men, along with another who had not taken out a policy, were being taken in a minibus to start work when it smashed down a ravine and caught fire.

Mr Kruger and Mr Loubser have since been suspended from Sanlam.

Mr Linde said the salesmen had not yet lodged claims, but because of information Sanlam had on the incident, the company would go into the matter carefully.

"As things stand at the moment, we will not pay," he said. "Payment will be suspended until further investigation by the police. If there are strong indications that a fraud was committed, naturally we will not pay."

A police spokesman said no arrests had been made.

The Witbank Civic Association is holding a mass meeting today and has warned of mass action in protest against perceived foot-dragging by the police.

Little hope of cut in prime rate (58) Stals

Despite banks and building societies having reduced loan rates by one percent, there is little hope of a cut in prime rate in the near future.

Reserve Bank Governor Dr Chris Stals said after a board meeting on Friday the Bank had no intention of reducing Bank rate until inflation was under control.

He said the Bank had no problem with commercial institutions reducing home loan rates as these were not linked to the Bank's rate. STAR 3/2/92

Dr Stals said all rates were market-driven and only became a problem when banks themselves had to borrow from the Bank at its official rates.

He said the market shortage was minimal and borrowings by banks were small, with central bank intervention limited.

However, he said that the prime rate and rates applicable to overdraft facilities, despite not being directly linked, were difficult to remove from Bank rate.

The central bank accepted there was liquidity in the market place, but felt that reducing Bank rate now would have a negative psycholigical effect, particularly with inflation still at 15 percent.

While other factors were falling into place, inflation still needed to be addressed. — Sapa.

Banks detail client portfolios to taxman

58

B/Day 4/2/92

LESLEY LAMBERT

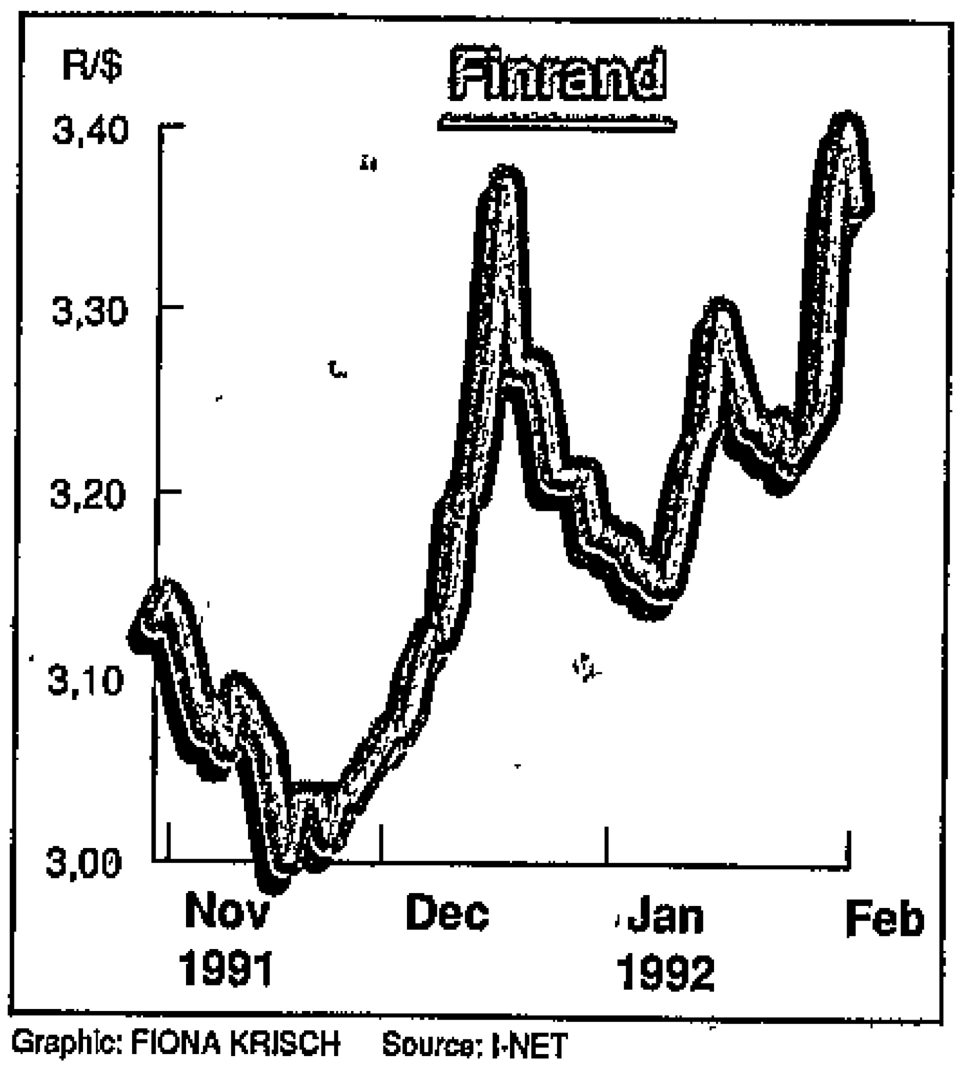
THE commissioner for Inland Revenue warned yesterday that his department was asking financial institutions to disclose their non-resident clients' investments to ensure that the full tax legitimately due was being paid.

The warning was made in a statement intended to clarify the tax treatment of non-residents' investments in SA.

However, the statement failed to revive a flagging financial rand, which slipped to a low of R3,48 to the dollar last week apparently as a result of speculation that Inland Revenue was cracking down more heavily on foreign investors. The unit closed little changed yesterday at R3,36.

In the statement, commissioner Hannes Hattingh reiterated that with certain exceptions — such as investments in gilts and semigilts — non-residents who derived interest from an SA source had the same obligations as South Africans to render income tax returns and pay taxes due.

The commissioner confirmed that the "Receiver of Revenue has the power to appoint a representative taxpayer to render an income tax return on behalf of non-residents and to remit tax which is due".



Graphic: FIONA KRISCH Source: I-NET

Many non-residents were unaware of their tax liabilities, he said.

Some smaller banks were recently reported as saying that Inland Revenue had already instructed them to withdraw the amount of tax due from non-resident clients' accounts.

This was interpreted as a sign that, in its

☐ To Page 2

Banks

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☐ From Page 1

efforts to find additional revenue sources, the tax department was tightening up on its implementation of tax legislation.

The commissioner's statement stressed that the "long-established" legislation enforcing the taxation of non-residents' investments remained unchanged.

The general principle contained in the Income Tax Act was that income tax was levied if interest was received by or accrued to a taxpayer from an SA source.

The source principle applied to all taxpayers, including non-residents and, briefly stated, meant that the actual source of interest was determined by the place where the credit was made available by the creditor to the debtor, Hattingh said.

"If, for example, the non-resident makes an investment directly in SA, the interest due is from an SA source. Where, however, the non-resident makes the credit available outside SA to the SA debtor and he (the debtor) is obliged, in terms of an agreement, to transfer the funds to SA for his account, the source of the interest is, in terms of existing tax law, outside SA."

The same rate of tax and tax rebates applied to residents and non-residents. There were exceptions to the principles.

Provided all the conditions had been met, interest payable to non-residents on stock or securities (including Treasury bills) issued by government, Transnet, any local authority, Eskom or the SABC was exempt from income tax.

Some double taxation avoidance agreements entered into between SA and other countries limited the tax due to a certain percentage of the interest.

SA did not have a withholding tax on interest payable to non-residents and although a 10% non-residents tax on interest was previously levied, this was merely granted as a credit on assessment if the interest was subject to normal tax.

Over-the-counter property syndication

(58)

Finance Staff STAR 4/2/92

Three major independent investment portfolio management companies have linked up with Timelife Property Investments Ltd — the property syndication arm of Timelife Insurance — to establish the country's first "over-the-counter" property syndication resale market.

About R500 million was invested in commercial property syndication last year, according to TLPI General manager Rowan Germany. He believes this is perhaps only a small percentage of the potential market.

"The full potential has not been realised because many investors, chiefly private investors and small institutions, have felt that they would not be able to liquidate their investments quickly enough if they needed money in a hurry," he says.

"The development is a milestone for the property syndication market and should broaden the appeal of property as an investment, particularly for the man in the street."

Sutherland said the sponsorship reflected the changes which had taken place in ...

Questions on Masterbond

58

Political Staff

CAPE TOWN — Douglas Gibson (DP Yeoville) has tabled in Parliament questions about the Masterbond crash. B/Day 4/2/92

The questions are:

- What authority investigated Masterbond schemes?
- Is government considering deposit insurance for financial institutions?
- Is government considering assisting Masterbond investors?
- Was any government institution dereiict in its duty? and
- Are Masterbond or Cape Investment Bond officials to be charged criminally?

10 held after attacks on teachers

KATHRYN STRACHAN

NINE men and a youth of 17 were arrested in Katlehong in the early hours of yesterday morning in connection with the recent attacks on schools and assaults on teachers in the area, police said.

They were being held for questioning before being charged.

The arrests follow a week of violence in which teachers at Katlehong schools were attacked and a lecturer at Kathorus College of Education was doused with petrol and set alight. The attacks led to the college and Kwa-Dukathole school being closed last week and to 19 white teachers being withdrawn from township schools by the DET, as it could no longer guarantee their safety. B/Day 4/2/92

Although the Katlehong branch of the Pan-Africanist Students' Organisation (Paso) praised the attacks, Paso director of information Waters Toboti said no Paso members were among those arrested.

Meanwhile, class boycotts continue at the Soweto College of Education as students protest against the college's refusal to re-admit students who failed last year.

Sapa reports that on January 22 the regional chief director, Highveld region, of the Department of Education and Training, J H Booysen, said incidents at Kwa-Dukathole school since it re-opened on January 8 included:

- An attempt by pupils to forcibly take reports from a woman teacher. A scuffle ensued and threats were made to the entire white staff, who were withdrawn;
- Armed pupils intimidating staff;
- A pupil stoning a car and being arrested by police; and
- Fellow pupils protesting by smashing windscreens of other cars, taking teachers hostage and marching them to the local police station where they demanded the release of their colleague.

ARGUS 5/2/92

Probe into legal and medical 'rake-offs' from fund

58

Dr P J Welgemoed

ALLEGED rake-offs by the medical and legal professions from the Mutilateral Motor Vehicle Accidents Fund were being investigated by a commission of inquiry into the fund, the Minister of Transport, Dr P J Welgemoed, said.

"Specific investigations are being conducted into this," he said during the Second Reading debate of the Multilateral Motor Vehicle Accidents Funds Amendment Bill.

Mr Robin Carlisle (DP Wynberg) said in 1989/90 the legal profession had benefitted by R54-million from the fund.

Administration of the fund was a disgrace, with outstanding claims totaling more than R1-billion, Mr Wessels Nel (DP Mooi River) said.

"Malpractices are common knowledge."

He quoted a Sunday newspaper report which said: "Investigations have revealed millions are paid out to insurance agents without files being checked."

The amendment to the Bill would hardly be felt, but it nevertheless warranted support.

The Conservative Party refused to support the amendment, saying it did not adequately address allegations of fraud and misuse of funds.

Dr Welgemoed said he was unhappy with the fund's state of affairs.

Responsibility for the fund did not lie with the government or the motorist, but with the insurance agents.

Besides investigating the length of time it took to settle a claim, the commission was also investigating the levy on petrol which constituted the fund's income.

"At the moment it is four cents a litre for petrol and 2,2 cents a litre for diesel."

By 1996 it would cost 17,5 cents a litre on petrol and 9,5 cents a litre on diesel.

Mr Raymond Radue (NP King William's Town) said the Bill promoted good business practice. The amendment made provision for funds to be transferred from the Central Energy Fund to the MVA fund monthly instead of quarterly.

More than 100 000 claims were made every year of which 25 percent were successful. — Sapa.

Another fuel price hike hint to bail out bankrupt fund

MICHAEL MORRIS (58)
Political Correspondent ARG 5/2/92

A FUEL price rise could be in the offing as a result of the critical financial state of the government's Multilateral Motor Vehicle Accident Fund (MMF), blamed in parliament yesterday on "mismanagement".

Government energy sources acknowledged today that the present MMF levy of 4 cents in every litre of petrol and 2,2 cents a litre of diesel could be increased to bale out the ailing fund.

They were reacting to a warning in parliament yesterday from Democratic Party transport spokesman Mr Robin Carlisle that motorists should brace themselves for fuel price hike because of the "disastrous" state of the MMF.

His warning came in debate yesterday on the Multilateral Motor Vehicle Accident Fund (MMF) which, at April 30 1990, had oustanding claims of R1,6-billion.

Outstanding claims rose by 29 percent to 39 000 during 1989/90.

"The scale of the disaster is immense," Mr Carlisle said.

Answering questions in parliament yesterday, Minister of Transport Dr Piet Welgemoed said he expected an interim report from the judicial commission appointed last year to investigate the MMF "in the first quarter of this year".

He said "disquieting allegations" about the Fund and the handling of claims by agents prompted the appointment of the judicial commission.

Asked about a possible fuel price rise, he told MPs this was not the responsibility of the Department of Transport.

Mr Carlisle warned that whatever the commission's findings, "motorists had better brace themselves for a further increase in the price of fuel to resolwe yet further instance of government mismanagement".

National Energy Council sources said today said a price rise was definitely not a certainty. Much would depend on the findings of the judicial commission.

It was also possible that contributions might be made from the Equalisation Fund to stave off a price rise.

However, they conceded that there was a direct link between the MMF and the fuel price through a levy which formed part of the fuel price structure.

The levy was last increased in November 1990 from 3,4 cents to four cents in every litre of petrol and 1,9 cents to 2,2 cents in every litre of diesel.

It was not up the National Energy Council to determine the scale of the levy, the sources said.

One source added: "The fact is that if it is necessary to boost the MMF's income, and if contributions are not made from the Equa%isation Fund, the levy in the fuel price will have to be increased."

In his statement yesterday, Mr Carlisle blamed the state of affairs in the MMF on "years of mismanagement".

"It is now common cause that crooked agents and attorneys have had a field day.

"Indeed, the legal profession is the second biggest beneficiary of the MMF, raking in R54-million in 1989/90. Their share of oustanding claims could be as much as R248-million."

Innovative deal by Landmark

STAR 5/2/92.

(58)

Analysts describe current commercial and industrial property market conditions as tough. Which is a good time, believe many players, to get innovative about property broking.

Someone who definitely backs this way of thinking is Max Braude, managing director, Landmark, who has just negotiated a very creative deal between a buyer and a seller for a building in Braamfontein with what would have seemed to the average onlooker as some insurmountable problems.

"The buyer wanted extensive renovations. They wanted ownership but with a very small deposit. The building did not warrant more than an 80 percent bond and the seller was not prepared to settle for a rental," says Mr Braude.

"We priced the renovations at one third again of the building's value. Then we were able to raise a bond for 80 percent of the total — ie of 130 percent of the original unrenovated value."

Problem

The next problem was that the buyer did not want to put down even the 20 percent still required to make the sale.

Which is when Landmark got creative. They devised an instalment deed of sale plan which enabled the buyer to put down a 10 percent deposit and make up a 30 percent deposit over two years through three balloon payments culminating in the payment of the balance outstanding at the end of the two-year period.

"The buyer and seller signed joint liability for a bond of 30 percent.

"The seller took a separate bond of 40 percent of the renovated value of the building as cash in hand and the interest being paid by the buyer services that bond in the hand of the seller.

"It's an intricate financial deal that took us about three months to negotiate."

Investors

Many property investors are currently advising against high gearing. Should the deal sour or lower inflation curb the expected increase in building value, some investors would certainly take the view that the lender of the finance has put too much at stake.

Is this a risky deal? Mr Braude believes not.

"Yes, the cost of money is high but the property value will increase and at the end of the day, I believe the capital cost is cheap. We have also done factory developments at close to 100 percent finance. In an inflation economy, to buy with tomorrow's money means you get the property at next to nothing at the end of the day.

"These deals are not for everyone. They're tailored for the company that has a good cash flow but low capital."

Another innovative move by Landmark is the conclusion of another Braamfontein sale — through conversion of a building that languished on the market for months without a buyer. In this case, the buyer is Studywell College and the building is No 102 De Korte Street.

"The building was gutted and a basement floor added to create a beautiful new college campus for Studywell," says Mr Braude.

The renovation lifted the value of 102 De Korte Street by 80 percent.

"The bond was granted, with a top up overdraft facility available, on the basis of quantity surveyors' figures," said Mr Braude.

The Star
COMMERCIAL &
INDUSTRIAL
Property guide

This regular Commercial and Industrial property feature has been written and compiled by Susan Ramwell in co-operation with leading figures in the property industry.

Slowdown in new development plans welcomed

STAR 5/2/92 (S8)

The oversupply of office space in South Africa's major centres has reached alarming proportions judging by most statistics released in January by major investors and property economists.

However, thanks to a slowdown in new development plans in 1992 and a hoped for lift in take-up rates towards the end of the year, the soft rental market should bottom out and be looking to gradual recovery in the second half.

Oversupply

According to Old Mutual, vacancy rates are in the region of 30 percent in the outlying office nodes around Sandton, 10 percent in Randburg, 12 percent in Pretoria, 19 percent in Durban — with similar trends in Cape Town.

Neville Berkowitz, in the newly released January edition of the Property Economist, reports that some areas may have an oversupply of commercial space in excess of three years.

This of course depends on how take-up rates move with an economic upturn that is not expected to materialise in increased demand for commercial property until 1993.

The time lag between the planning of commercial and industrial developments and a cut-back to suit lower demand is unavoidable, but has been particularly pronounced since 1989 to the present.

According to Mr Berkowitz, at 1980 prices of intended construction showed no real growth. In nominal terms, the value of building plans peaked in 1991 at R6,5 billion.

It is expected to fall significantly in nominal terms during 1992.

Cape Town based Real Estate Surveys' research director for New Office Developments, Erwin Rode, confirms that new developments will decline by 26 percent in 1992 compared with 1991 (excluding refurbishments).

Old Mutual property investment manager, Ian Watt, comments: "New development should slow down now giving occupancy rates a chance to improve.

"One must welcome a slowdown in new development and appeal for continued control," he said.

"New investment must be from the basis of having the fundamentals of pre-letting and low gearing in place."

Network

The fortunate developers and investors are those with prime A and B grade properties in areas which are still commanding firm rentals of in excess of R26 per square metre net such as Rosebank in Johannesburg and other prime buildings in central city and decentralised areas well served by main traffic routes.

According to Sapoa's latest review, take-up of space in Rosebank during 1991 was significant at 50 000 sq m over an 18-month period.

J H Isaacs director, Steve Kesler, reports in his 1991 review that other positive performers in the PWV were Randburg where some new buildings commanded R23/sq m to R24/sq m, Bedfordview and Bruma Lake, averaging between R22/sq m and R26/sq m.

RMS-Syfrets executive director Mark McReedy says that office node development on the M1 corridor between Johannesburg and Pretoria has a good future.

A view with which concides with Steve Kesler's review which says that "proximity to the major road network ensured interest in new developments at Woodmead and Epsom Downs".

A cautionary note on decentralised northern areas such as Woodlands (north-west of Sandton CBD) and Wierda Valley however, comes from Baker Street Associates managing director (commercial) Rodney Timm.

"The number of new development start-ups in Sandton have reduced dramatically which should in the medium term place a straight upward pressure on rentals," says Mr Timm.

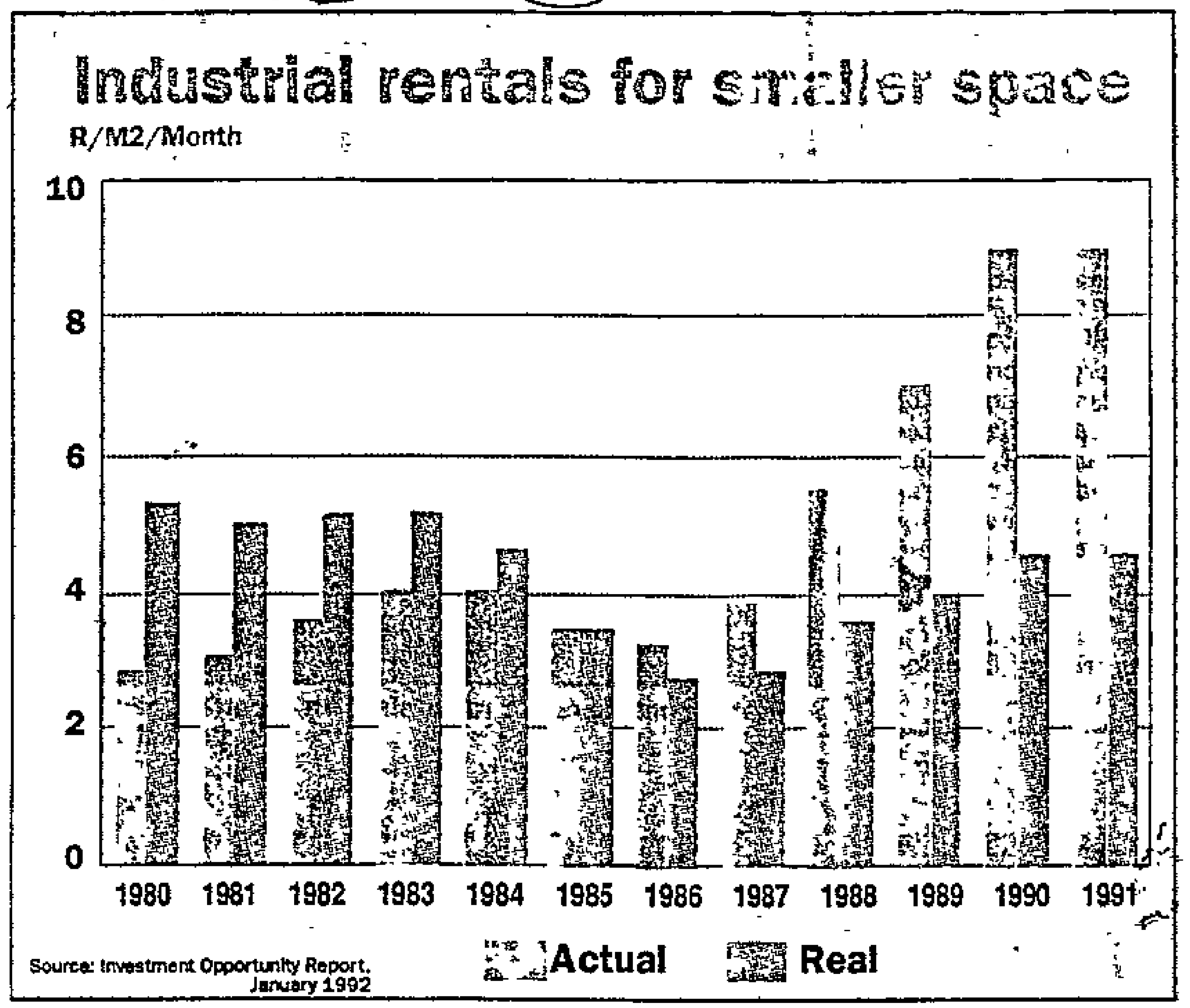
"But," he adds, "the oversupply in Wierda Valley, at high rentals, is an embarrassing manifestation of overzealous developers following a trend and over-paying for vacant land.

"Woodlands," Mr Timm describes as "extremely problematic".

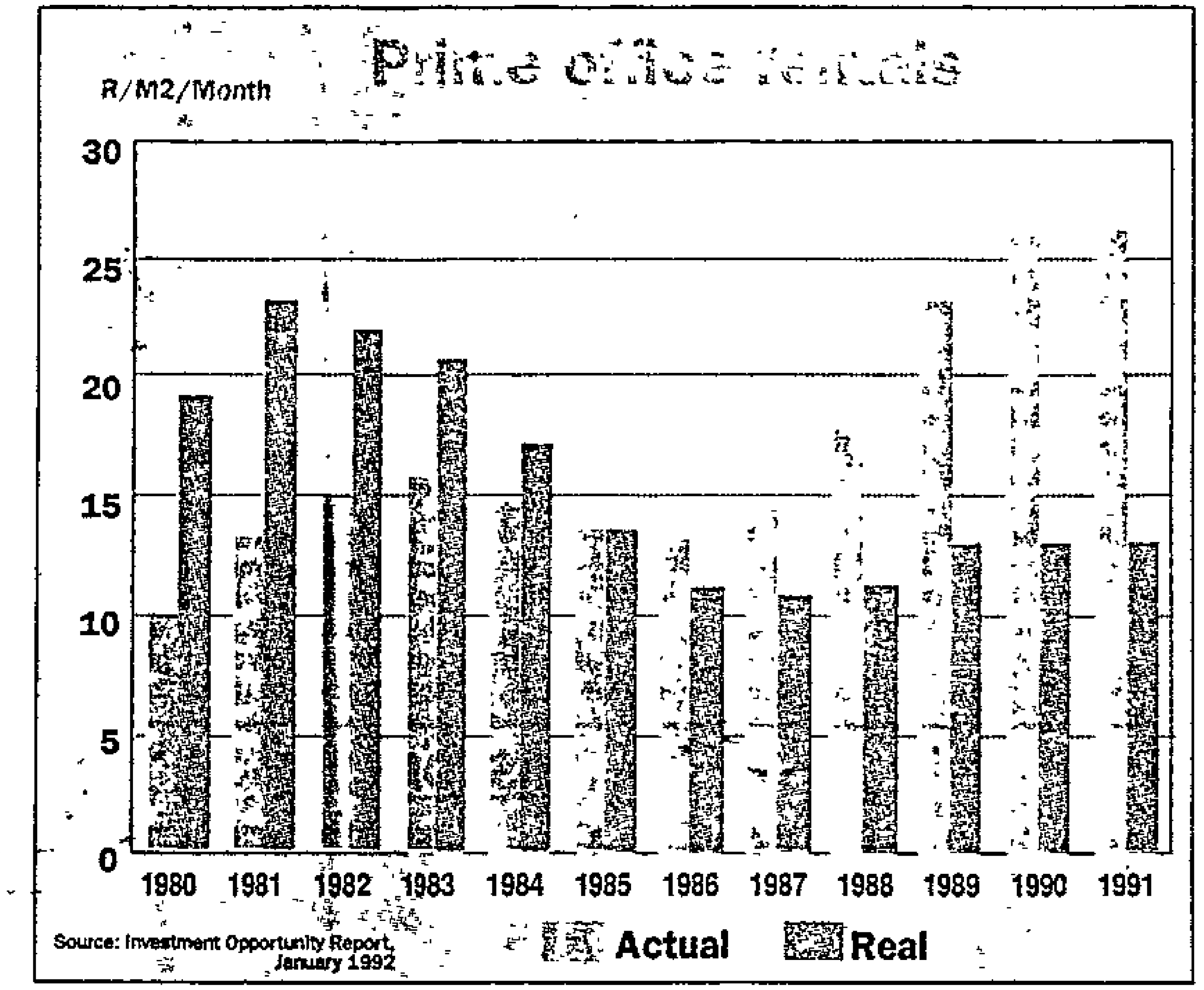
There is no doubt that the current market is a tenant's market.

Most property brokers believe, however, that tenants should not hold off signing leases for much longer as the office market is bottoming out, and an upturn in both demand and rentals may be seen before the 1992 year-end.

Mr Kesler believes tenants due to renegotiate leases should do so prior to June 1992 to optimise their competitive positions and obtain the most favourable rates



Source: Investment Opportunity Report, January 1992



Source: Investment Opportunity Report, January 1992

Bloubosrand home sales 'collapse'

Squatter row leads to freeze in new bonds

B/Day 5/2/92 (58)

KATHRYN STRACHAN

FINANCIAL institutions were refusing to grant new bonds for properties in Bloubosrand in Randburg since the Transvaal Provincial Administration's (TPA) moves to relocate squatters to the area, estate agents said yesterday.

United Bank GM Kevin Gibb said until the situation in the area became clearer, "we will not be appointing any new bonds". The proposed squatter settlement could have a major impact on house values.

Other banks were reluctant to comment on their policies and said they would consider each application on merit.

But estate agents operating in Bloubosrand said they had contacted a range of banks and had been told categorically that no further bonds would be granted until the situation was resolved. The agents said some institutions had withdrawn financing that had been previously approved.

The TPA's plans permanently to relocate 750 squatter families from nearby Zevenfontein to 44ha of Bloubosrand Extension 1 have been put on hold for a week while the provincial authorities consider a scheme to change the status of the site from a shack settlement to that of a formal low-cost housing development.

The TPA says it wants to consult all parties involved following the furore in the wake of its announcement that it was expropriating the land to house the squatters.

Residents in the area, who believe their properties would be devalued and crime would increase, have threatened to take legal action against the TPA and to refuse to pay rates. They have demanded the resignation of the Randburg Town Council which agreed to the move.

Angry home-owners are maintaining 24-hour vigils and manning barricades to prevent squatters moving into the area.

The squatters' move to Bloubosrand followed mounting opposition to their temporary removal to Diepsloot.

United Bank's Gibb said the situation was very unusual. United would be assessing the low-cost housing proposal and effects on nearby homes.

He said a person who had bought a house in the area with United financing had already dumped the house keys on his desk and abandoned the property in disgust. Other home-owners had threatened to do the same, he said.

Mike Schefermann of Realty Estates said three of his sales had collapsed since Thursday and he had told aspirant sellers there was no sense in trying to market their houses in the current climate. He said financial institutions believed that if the upgrading of the disputed area from squatter settlement to low-cost housing was allowed to proceed, the value of Bloubosrand properties would still be substantially reduced.

Another estate agent in the area, Dee Monteith, said business had been good before the Transvaal administrator's announcement, but not one potential buyer had arrived for a house showday on Sunday. In the past four days she had had four deals worth R400 000 cancelled after banks rejected bond applications.

She said banks were holding back until they had heard the TPA's final decision, which is expected on Monday.

Bloubosrand Action Committee chair-

☐ To Page 2

Bond freeze

B/Day 5/2/92 (58)

☐ From Page 1

man Peter Bantock said a meeting between residents and squatter representatives planned for last night at the Randburg Town Council had been cancelled by the council with no explanation.

Meanwhile, industries in the Kya Sands area, adjacent to the proposed relocation site, have added their voice to the protest.

Bloubosrand Action Committee business liaison officer Gary Noble said yesterday it had received about 50 letters from industries saying they intended to boycott rates and taxes in a protest against the move.

At a meeting with the committee yesterday, industry representatives said they were unable to provide employment for people already living in the area, and could not absorb more people.

Sapa reports that Louis de Waal (DP North Rand) said compromise was the only way forward in the highly emotive Zevenfontein squatter issue.

"That means acceptance that North Rand will have low-cost housing but that time has to be bought, at all costs, to plan and implement this sensibly," he said.

De Waal said the impact on property owners' investments could not be ignored. "If that's to be done, the state has to budget, at central government level, to make good the losses."

RMBH expects its business to pick up

8/10am 5/2/92 SHARON WOOD (58)

RAND Merchant Bank Holdings yesterday announced a 21% increase in earnings to 23,6c a share in the six months ended December from 19,5c a share in the previous interim period.

The group would probably achieve a similar increase in profits in the second half of the year, its board said in a statement.

"We expect the recovery in the economy to be slower than most commentators expect and the demand for credit probably will not pick up significantly," MD Laurie Dippenaar said.

The group's net income after taxation and contingency reserve transfers rose 21% to R13m from R10,75m in the previous interim period.

The group decided to pay two dividends a year instead of an annual dividend. A maiden interim dividend of 8,5c a share was declared for the period under review.

All divisions performed satisfactorily. The international and capital market divisions' results were particularly gratifying, the board said.

There had been no noticeable deterioration in the risk profile of the lending book, it said.

"In formulating credit criteria, the board remains cognisant of the negative effect that the recessionary conditions and high interest rates are having on corporate cash flows."

Total assets held by the group fell 3,5% to R2,85bn from R2,95bn in the previous comparable period.

The board attributed the drop in assets to limited investment and lending opportunities.

The listing of Sun Ciskei, of which RMB was a minority shareholder, had increased the group's investments in listed shares by 60,7% and decreased its investments in unlisted shares by 86,6%.

The 70,7% plunge in gilt and semi-gilt stock investments was of no significance because they were trading stocks, and holdings fluctuated at the end of each reported period, Dippenaar said.

Inquiries for industrial space flood in

STAR 5/2/92

Widespread predictions of an industrial-led increase in economic activity seem to be borne out by significant increases in both letting inquiries and deals concluded for industrial space.

This is reported by a number of sources in the property market, including the industrial divisions of RMS-Syfrets, Old Mutual, Ampros, Barlow Rand Properties, RMBT, J H Isaacs and property brokers such as Landmark and Baker Street Associates.

Baker Street Associates managing director, Kevin Jordaan, says: "Many decisions on space were held over during 1991. During the first two weeks of 1992 the volume of inquiries and the number of deals concluded are significantly higher when compared with the same time last year. For some people, the signs of an upturn are already there.

Stability

"We seem close to reaching a situation where political stability and economic growth may be achieved. We could have already turned the corner. I think cautious optimism is justified," says Mr Jordaan.

While most other major industrial property owners confirm this trend, many hesitate to predict that it will be sustained. Although it may reflect some pent-up demand held off during 1991 which may soon be exhausted, there are some deeper signs warranting optimism.

Old Mutual Property Investment Manager, Ian Watt points out that industrial inventories, allowed to run low, are now due for restocking.

Mr Watt reports good occupancy rates for OM Properties' recently completed industrial and business parks owing to the company's policy of developing only after all or a substantial part of the new space has been pre-let.

Mr Watt predicts an upsurge in industrial activity which will produce increasing industrial rental levels and higher investment yields.

Once this happens, he believes there will be new industrial development in sought-after areas of Johannesburg and Pretoria where rentals achieved will reach R10 to R11/sq m during 1993.

He says favoured industrial areas include City Deep, Johannesburg and Hermanstadt in Pretoria.

Mike Brown, a director of RMS-Syfrets industrial property division, reports that the regions where demand is highest remain Isando, Jetpark, Selby, Wynberg, Kramerville, Eastgate, Midrand and Benrose.

He says demand is less brisk in areas such as Alrode, Wadeville and Kya-Sand.

Neville Berkowitz, reporting in the January edition of The Property Economist, says that industrial rentals for smaller space have not shown any real growth in 1991 but that growth is expected during the second half of this year.

Mr Berkowitz believes that as far as small industrial space goes, cheaper lower-grade space will have to be taken up before newly built factories will secure tenants at higher asking rentals of up to R14/sq m.

Mike Brown is more optimistic and believes that tenants are in good supply for prime industrial space.

"Additional rental costs are more than recovered in greater production efficiencies in modern facilities in newer areas."

Violence deters foreign buyers

58

B/Day 5/2/92.

PETER GALLI

INDUSTRY sources do not expect the ailing residential market to be rescued by overseas buyers — at least, not in the short term.

In a Multi Listing Service (MLS) survey carried out for Business Day, Pam Golding Estates and the Seeff Property Organisation said that despite excellent foreign interest in the SA property market, there was little chance of a surge in foreign buying until the threat of political violence was removed.

The companies — the two largest estate agencies actively canvassing overseas buyers — formed part of a survey on MLS members to determine the potential number of foreign buyers.

While all of the members were optimistic that there would eventually be a strong foreign buying force, they felt this would only materialise once full political unity was achieved.

"While foreign interest in SA property is high, perceptions of SA still remain extremely negative," said Seeff Property Organisation director Rob McKee.

McKee, who has just returned from a tour of seven countries to promote SA property, said all the television coverage of SA he saw during his trip projected confrontation and ignored the strides made towards peace

Pam Golding director Cecil Golding agreed that the "shadow of violence" was the main factor discouraging foreign buying. The group supports offices in four European countries.

"In 1990 we sold 73 properties to overseas buyers, and this rose only to 75 in 1991. Early 1992 sales have been to Nigerian, Italian, German and British buyers," Golding said.

Seeff Property also recorded a marginal improvement in offshore sales in 1991, which included three sales on the Atlantic coast in 24 hours. Two properties were sold to a German and one to a Monte Carlo resident.

Also acting against the local market were high interest rates, safer investment opportunities elsewhere and slow turnover of overseas properties.

"Last week's one percentage point interest rate cut for mortgage bonds will have little effect in stimulating foreign interest — large cuts are essential," McKee said.

About 700 Britons, all qualified for SA permanent residence, were unable to sell their homes in the UK, he said.

There were also stagnant markets in Germany and the US

Sale of plots 'can ease backlog'

B/Day 5/2/92

PETER GALLI

THE sale of more than 24 000 serviced plots lying unused throughout SA could significantly ease the housing backlog, says House of Representatives deputy director of housing John Hopkins.

The plots were financed with loans from the House of Representatives allocated for low-income earners, and range in price from R8 000 to R16 000.

"Local authorities own more than 90% of these properties, which are to be sold at cost to individuals who qualify for state subsidised housing. The money thus earned could be used to finance further housing," he says.

More than R300m of capital is tied up in these properties which are not being developed because state funds for low income housing have dried up.

The authorities need to develop the properties now in the best possible way for the benefit of the community, Hopkins says

The House of Representatives recently announced it would increase the maximum gross income and loan limit for qualifying individuals to R2 000 a month and R35 000 respectively.

"The loans, which apply to land purchasers only, are granted at a subsidised interest rate. The owner is then encouraged to build his own starter house that can be upgraded as income improves," he says.

To accommodate the needs of owners who are building for themselves, many local authorities have relaxed building regulations by allowing builders to occupy the site during construction.

Don't overstate income for loan

Sowetan 6/2/92 (58)

INDIVIDUALS who overstate their salaries so that they can get home loans from banking institutions run the risk of getting into financial difficulties sooner rather than later.

By JOE MDHLELA

According to Perm marketing manager Mr Richard Ford, you should never be tempted to overstate your income in your loan application.

"You will not be fooling the financial institution; you will be fooling yourself, and risk running into financial difficulties sooner or later."

He said all people had only limited money to spend.

"Yet every day we face endless calls on our resources to provide for a variety of things for ourselves and our family."

He said determining how much you should spend on a house depends on whether you can afford the monthly instalment on the home loan.

He advised that visiting a building society or a bank for an advice would be ideal.

"There an experienced person will explain all the elements that make up the cost of owning a house, and explain the price level your income allows you," he said.

The simple rule of thumb, said Ford, was that for every R500 of monthly income, one could buy R10 000 worth of house.

"In other words, if you and your spouse earn R1 000 a month, you can afford a home of R20 000. At R1 500 a month, it will be R30 000, and R3 000 it is R60 000," Ford said.

He said another rule to remember was to multiply the monthly salary by 20.

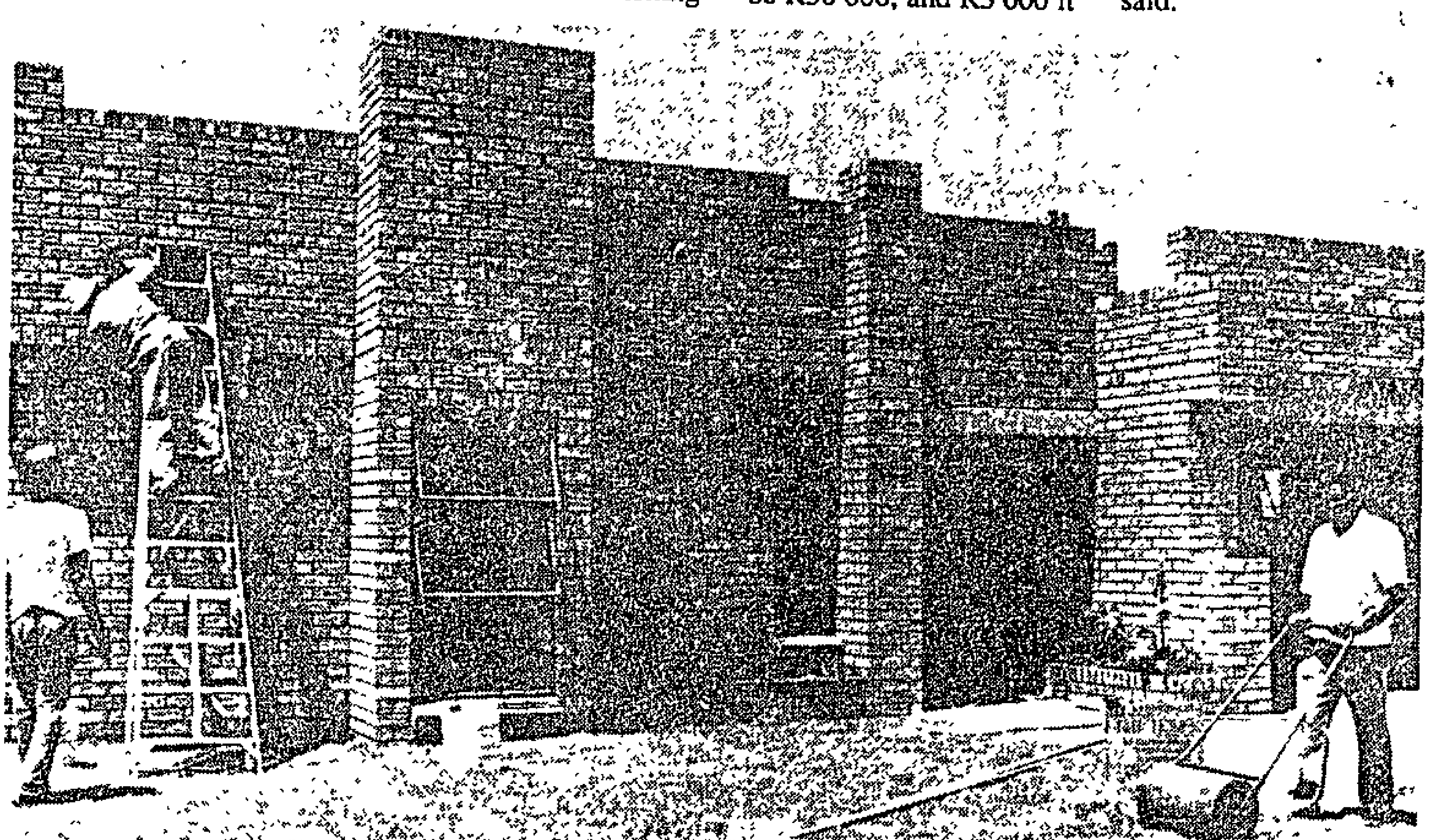
"If your income is R2 000 a month, you should be able to afford a house costing R40 000."

Ford warned that it was important that the costs are explained to a prospective home owner.

"This way you will avoid unpleasant surprises later on," he said.

He advised that a bigger deposit reduced the amount of the loan.

"The less you owe, the less interest you pay," he said.



When applying for a housing loan from the banks or building societies, take care to work out just how much you need. If you borrow too much the high interest rates could put pressure on your budget and you will find it hard to meet your commitments.

Banks could go it alone on rate cutting

STAR 6/2/92

By Sven Lünsche (58)

Leading commercial banks could reduce their short-term interest rates without waiting for the Reserve Bank to lower its key rate.

Presenting its first Business Confidence Index (BCI) for the year, the SA Chamber of Business (Sacob) said yesterday that in the face of rising liquidity in the money market the central bank could be sidestepped by commercial banks.

Sacob chief economist Dr Ben van Rensburg said banks had already pre-empted the Reserve Bank's tough monetary stance by lowering bond rates last week.

Liquidity in the money market has been increasing steadily over the past few months and commerical banks have become less dependent on the Reserve Bank's discount facility.

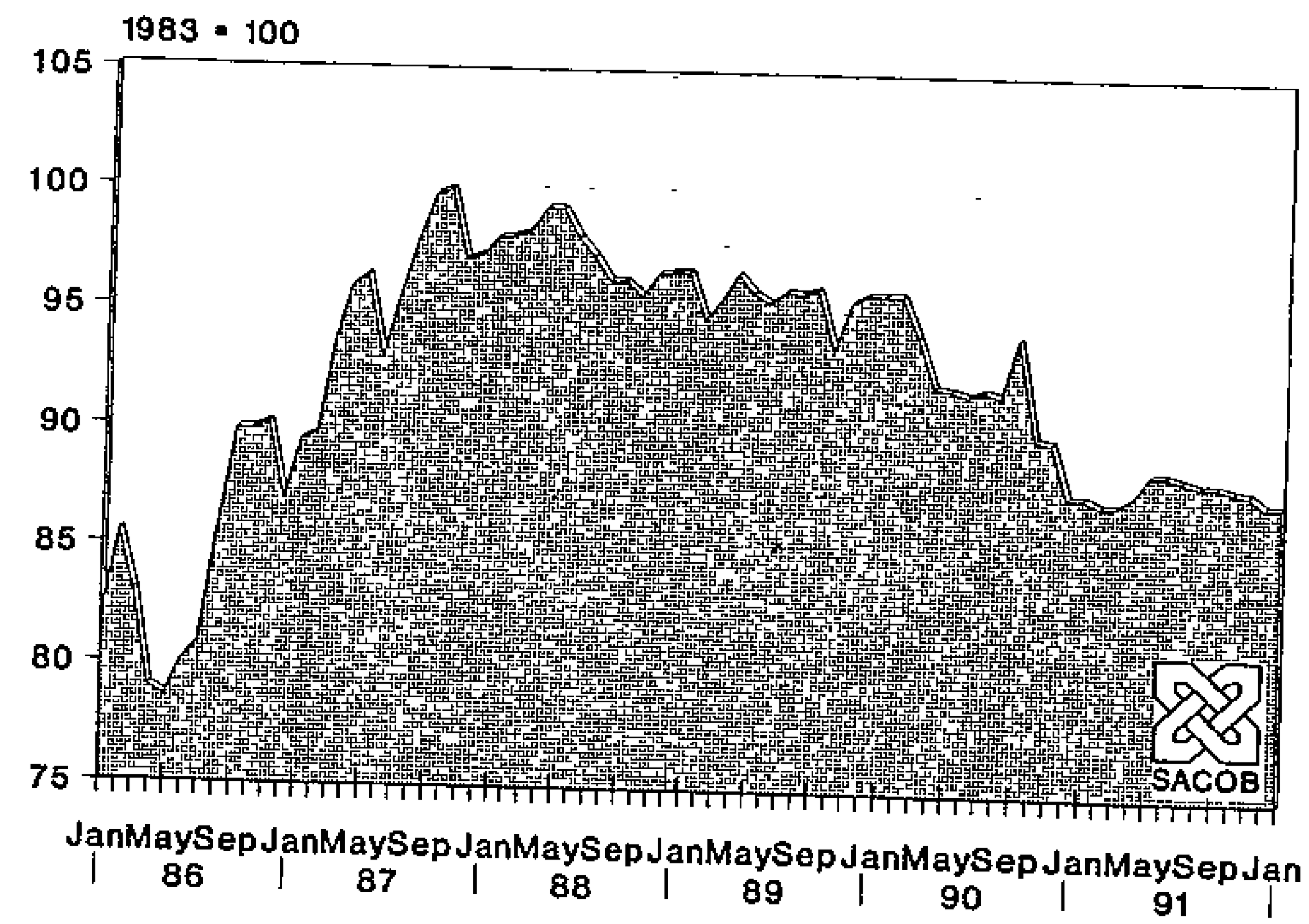
"While the Reserve Bank has committed itself to maintaining its tight monetary policy, such a stance is difficult to uphold in a market where liquidity is rising rapidly.

"The net effect of this could be that the high degree of competition in the commercial banking sector will result in reduced short-term interest rates without any decline in Bank rate," Dr van Rensburg said.

Such a move by commercial banks would be more likely if the inflation rate continues at its recent high levels over the next few months, thus forcing the central bank to hold to its tough monetary stance.

Dr van Rensburg said the high cost of finance was one of the major reasons for the current low level of business confidence, but added that economic fundamentals were pointing to a possible relaxation of monetary policy.

"The present trend in producer prices as well as the recent downward adjustment of some rates in the market augur well for a relaxation in monetary policy, and lower interest burdens on both business and the individual."



Sacob's Business Confidence Index

The BCI fell by 0,5 percentage points in January, continuing its sluggish performance over the past two years (see graph).

Dr van Rensburg said the slight decline was a reflection of the "present brittle state of confidence, rather than a clear indication that the expected economic upturn is in jeopardy".

Dr van Rensburg said political developments would play a key role in business confidence this year, adding that the progress made by Codesa over the year would provide an important platform on which confidence could be built.

However, he stressed that business response to political progress would always be weighed against the attention given by political parties to the economy and its needs.

He renewed Sacob's call for an economic forum, which could evolve into an economic Codesa and provide a glimpse of the parameters on which the economic future of SA would be based.

Turning to the outlook for the year, Dr van Rensburg said exports would provide the key to higher growth.

Whether or not this happened would depend largely on the ability of the state to relax or redefine restrictive trade barriers.

Furthermore, the forthcoming Budget could supplement an easier monetary policy, particularly if steps were taken to make adjustments for bracket creep and lower taxes.

"As a result, a modest growth in real Gross Domestic Product of one to 1,5 percent now appears likely in 1992.

"The groundwork has been laid for a recovery that will be sustainable for much longer than recent cyclical upswings," Dr van Rensburg said.

ANC slams bank's Eurobond issue plan

BDay 6/2/92

(58)

SHERIDAN CONNOLLY

THE ANC yesterday strongly condemned the planned DM100m Eurobond issue by the Development Bank of Southern Africa.

In a statement, it repeated its view that a future democratic government would be compelled to weigh its obligations to service and take responsibility for debts contracted by the present government.

The ANC's criticism contradicts a statement by ANC president Nelson Mandela at the World Economic Forum in Davos, Switzerland, on Sunday in which he gave the assurance that a future ANC government would not renege on government loan repayments.

"We are obliged to honour these loans or else we will be in a great deal of trouble," he said.

Mandela also said any statement from ANC spokesmen that a future ANC government might not honour loans transacted by the present government represented their own views and not those of the ANC.

Yet in the official statement yesterday, the ANC said bond issues were "designed to impose a costly and heavy burden of international indebtedness on a future democratic government and the people of SA".

European bankers expect the issue to be launched tomorrow.

The ANC statement said government, which had an 84% capital interest in the Development Bank, was pursuing a systematic programme of foreign borrowing with a view to breaking existing economic sanctions, and in particular financial and investment sanctions.

The ANC appealed to prospective investors to desist from collaborating and participating in "unilateral restructuring of the economy by the outgoing apartheid

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Eurobond

BDay 6/2/92

(58) □ From Page 1

regime".

Plans for the bond issue were made known at the end of last month. The bank said then that the ANC and all other interested parties had, over the past two years, been kept informed of its intention to enter the international capital market.

A Development Bank spokesman said the bank had noted the ANC's criticisms. It would issue further details of the bond issue at an appropriate time.

The ANC recently condemned government's 250-million ecu bond issue and also said it had learnt that Transnet planned to issue an "equity-linked financial instrument to foreign subscribers which has the potential for providing investors with a rate of return of as high as 25%".

Transnet said this 25% referred to Transnet's equity linked financial instrument (Elfi) III issued in April last year.

The Elfi instrument consisted of a 4,5% bull tranche and a 25% bear tranche, and as the instrument was issued in combinations, the average cost of funds for Transnet was 14,75%.

This was significantly lower than comparable two-year SA rates, Transnet said.

Transnet said the Elfi issue was primarily aimed at domestic investors but foreigners were, of course, welcome to invest in it through the financial rand.

Because Elfi was an SA-registered loan stock, denominated in rands, the coupon interest rate could not be compared with the ecu placement in the European capital market, Transnet added.

● Comment: Page 16

SOWETAN BUSINESS

A question of co-operation

(58)

Sowetan 6/2/92.

It's my business

THAMI MAZWAI

IN August last year I wrote about the influences of our political organisations in Fabcos and Nafcoc. I was then given a roasting and accused of mischief-making.

Mr Mofasi Lekota, then executive director of Nafcoc, and Mr Jabu Mabuza, managing director of Fabcos Marketing, issued a joint statement in which they denied any involvement by the PAC, ANC, Azapo or Inkatha in their affairs.

They said they were continuously looking at the question of unity and co-operation between their organisations.

Today, and six months later, we have not heard of any unity talks or co-operation between the two organisations.

Let us forget about the planned unity talks between Nafcoc, Fabcos, Sacob and the AHI announced this week. This rich uncle-poor nephew marriage won't work.

Instead, Fabcos and Nafcoc must look at last weeks "merger" between Amalgamated Banks of South Africa (Absa) and Bankorp, to form the biggest ever banking group in the country.

While our business organisations are playing hard-to-get with each other, white business institutions are closing ranks.

Soon we will have impregnable white business monoliths, making it harder for black business to edge in.

What the recent merger means is that the market is monopolised by Absa, Standard, First National and Nedperm.

We will now have the Fabcos-sponsored Future Bank and Nafcoc-inspired African Bank fighting for the crumbs.

Yet, if our stokvels money was invested in a merged African Future Bank, with Western Bank's stake substantially reduced or this FNB affiliate shown the other side of the door, a black colossus would emerge.

It is the size of market share, state of technology and expertise that decides the viability of financial institutions.

A merged African-Future Bank could then easily buy the expertise it needs from the management ranks of the three major banks, after all management talent has a price.

Appropriate technology could then also be acquired by a giant black institution.

Also, do we really need two taxi associations offering virtually the same benefits to members; two builders organisations in a struggling sector, two stokvel bodies, various retail organisations and just about a duplication in every aspect of our business?

At the moment our business organisations are either sniping at, or ignoring, each other.

What is disturbing is that each enjoys the backing of white business houses.

The rivalry between these business houses for the black market is translated in aid to Fabcos or Nafcoc.

What one also finds is the same big white company sponsors both. Is this business house making sure that these fighters enter the fray at the same weight?

Surely, by this time Nafcoc and Fabcos should be aware that big business fears a united black chamber of commerce.

Our business leaders should take a leaf from the rise of Afrikaner business.

Afrikaner leaders ensured that they got their people to support institutions like Sanlam, the then Volkskas and many others; all originally Afrikaner institutions.

We should also take this route. Yes, they will out-compete our businessmen in service and prices. But we will learn and develop our own competitive edge.

This is the nature of business, and how the Japanese learnt how to beat the Americans at their own game.

In 10 to 15 years we could have black-owned and successful medium-sized enterprises. This can happen.

RMB poised to bag futures agency

BDay 6/2/92

SHARON WOOD

RAND Merchant Bank (RMB) is poised to take over the agency agreement between SA's largest international futures trading company Holcom Futures and top UK commodity broker Rudolf Wolff.

MD Laurie Dippenaar said yesterday discussions were advanced on the transferral of the agency agreement between Holcom and Rudolf Wolff to RMB on March 1.

The agency agreement covered futures and options broking of base metals and agricultural commodities.

RMB financial markets executive director Russell Loubser said as SA was a commodity-producing country, there should be good growth potential. A move into international futures broking was a logical extension of RMB's operations.

(58)

Several key Holcom staff members, including MD Rod Holness and several specialists, would move to RMB.

Loubser said the proposed agreement should benefit all parties and their clients. RMB's infrastructure, technical know-how and capital base would facilitate the expansion of operations. Holcom would continue to administer existing long-term contracts and its board of directors and shareholding structure would be unchanged.

The transaction was subject to the approval of the Reserve Bank, he added.

Investors 'wary after collapse' (58)

LINDA ENSOR

CAPE TOWN — The collapse of the Masterbond group had caused a serious ripple in the participation bond market as many investors had doubts about whether to invest in such schemes, Seeff Commercial Properties Valuation manager Henry Goosen said yesterday.

He said in a statement it might become necessary for the regulations governing the valuation of property for participation bond purposes to be tightened up.

Goosen said it appeared that some of the Masterbond properties financed by participation bonds had been "grossly overvalued" which meant properties were bonded for far higher amounts than they should have been.

The institution inviting participation in its mortgage bonds was solely responsible for repayment, Goosen said. B|Day 6|2|92

He said most institutions used their own valuators, but it might be necessary for additional independent valuators to be brought in.

EP cuts bond rates for select clients

58

Finance Staff STAR 7/2/91

The EP Building Society has undercut all other institutions by dropping its bond rate a further quarter of a percent to 18,75 percent.

MD Trevor Jennings says the bond rate has been dropped, but only for certain clients.

"Those clients who are a more secure investment and use more than one or two of our services are entitled to a lower mortgage rate."

The drop to 18,75 percent will only be available to clients who utilise at least three other services and have bonds of over R60 000.

"All our mortgage rates are now associated with packages. If a client uses only two other services, he qualifies for a 19 percent rate," says Mr Jennings.

The move comes after last week's decision by First National Bank and Standard Bank to drop their mortgage rates by one percent from 20 to 19 percent.

KWV Investments pushes up earnings

3 Day 7/2/92

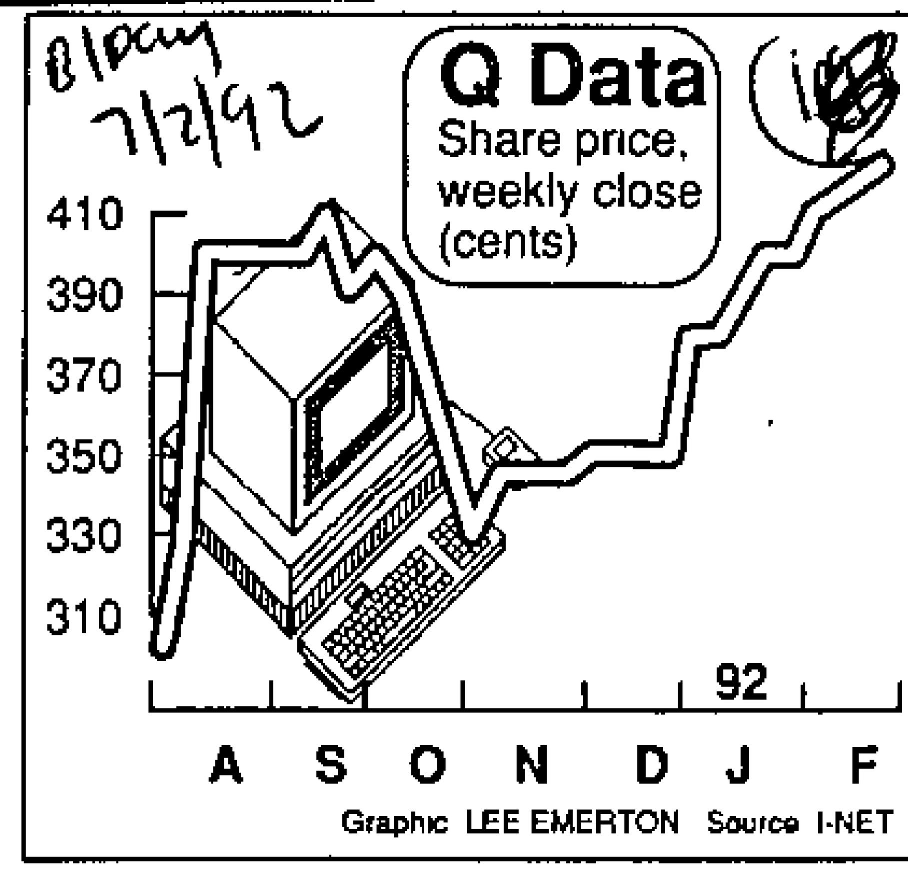
Business Day Reporter

KWV Investments, which holds 30% of both Distillers and Stellenbosch Farmers Winery, produced 6,6% growth in earnings a share from 15c to 16c a share for the six months to December 31.

The holding company, owned jointly by Rembrandt and KWV, declared a dividend of 16c, which also grew by 6,6% from 15c. Net income before tax grew by almost 7% to R6,7m. The company paid no tax during the interim period.

After bringing forward R60 000 in retained income, compared with R112 000 the previous year, it produced 6% growth in distributable income to R6,78m.

B Day 7/2/92



Q Data's share price graph published yesterday was incorrect. The above graph, showing yesterday's close of 425c, accurately shows the movement of the share price over the past seven months.

Marshalls boosted by rentals

EDWARD WEST

DURBAN-based property group Marshalls — with a property portfolio valued at R67m by the J H Isaacs Group — has increased earnings by 30% to 32,2c a share in its financial year to December 1991, even though turnover fell by 13,6% to R22,5m.

(58)

Sales and commission fell by nearly a quarter to R12,7m when compared with last year, but rental income increased 6,7% to R9,9m.

Pre-tax profits increased 27% to R5,07m.

B Day 7/2/92

Marshalls MD Peter Lonsdale said yesterday high occupancy levels at its commercial and office developments in Durban, Pinetown and Cape Town contributed to group profits.

Its Jersey-based Confirming Division, which enables the company to issue letters of credit to overseas suppliers from non-SA banks with exchange control permission, also made a satisfactory contribution to profits, he said.

Lonsdale said the company successfully recovered its funds on the sale of the remaining assets in its motor and agricultural division.

These assets, which had not produced earnings throughout the year, comprised less than 3% of the group assets.

A Greytown-based Massey Ferguson dealership and an Estcourt-based Nissan dealership was sold.

The group anticipated earnings growth this year. It declared a dividend of 21c (19c) a share covered 1,5 times.

Pyramid company Marshalls Controlling Investments (Marcons), which derives all income from its 68% holding in Marshalls, increased earnings by 30% to 15,3c a share and increased dividends from 9c to 9,75c a share.

Lower Cenprop interest reduces income

MARCIA KLEIN

CENTRECITY Property Fund (Cenprop), the property unit trust managed by J H Isaacs, has reported a slight reduction in earnings in the year to end-December. 58

Cenprop's net income grew by 12,5%, but interest earnings were substantially reduced as cash resources were committed to new developments. This and a lower than budgeted growth in turnover rentals resulted in a reduction in annual earnings to 25,38c (25,88c). B/Day 7/2/92

Agreement had been reached for Cenprop to sell the Midtown property in Pretoria for R20,6m, yielding a capital profit of R8,8m, which would be committed to a new Hyde Park office development.Directors expect little change in earnings.

Capital Property Fund, also managed by J H Isaacs, increased its earnings by 7,4% to 32,11c (29,99c). It had invested R46m of the R90m raised in a rights issue, and the remaining R38m would be invested if current negotiations were successful.

ABSA

Digesting Bankorp

FM 7/2/92

(58)

New management will have to squeeze hard for profits

The real question to be answered about Absa's swallowing of Bankorp is whether Absa has enough management clout to force an adequate return in reasonable time out of underperforming Bankorp assets.

It is all very well to lump Bankorp's R32bn assets on top of Absa's R52bn and believe that combined market share will shoot to the 40% Absa says it desires. It now claims 25%. But that assumes near-parity in performance of these assets, which has not been the case.

Absa supremo Piet Badenhorst explains that banks' earlier invasion of building societies' territory provoked a counter-attack; the Absa-Bankorp merger is a powerful extension of that. Nobody would doubt that.

Bankorp's Liebenberg ... *will he stick around?*

But the question remains, given the underperformamce of Bankorp and its constituents for so long: how potent is the thrust?

The answer must be sought in the dispositions of the men at Absa. Badenhorst is known to be tough, patient and calculating. He is unlikely to risk all in a mad rush at Moscow. He is more likely to draw his victims on to his own predatory positions. He is unlikely to be forgiving.

But how easily will he sit next to Piet Liebenberg, founder of Finansbank, saviour of Nedbank and the man charged by Sanlam to pull its overloaded banking interests out of the mire of Fred du Plessis' administration? Our guess is that, despite protestations to the contrary, Liebenberg will progressively withdraw into other interests.

He has, after all, done well by Sanlam. He has reduced its banking exposure which grew out of the rescue of TrustBank and by selling to Absa has healed the rift with Volkskas, which had refused TrustBank succour.

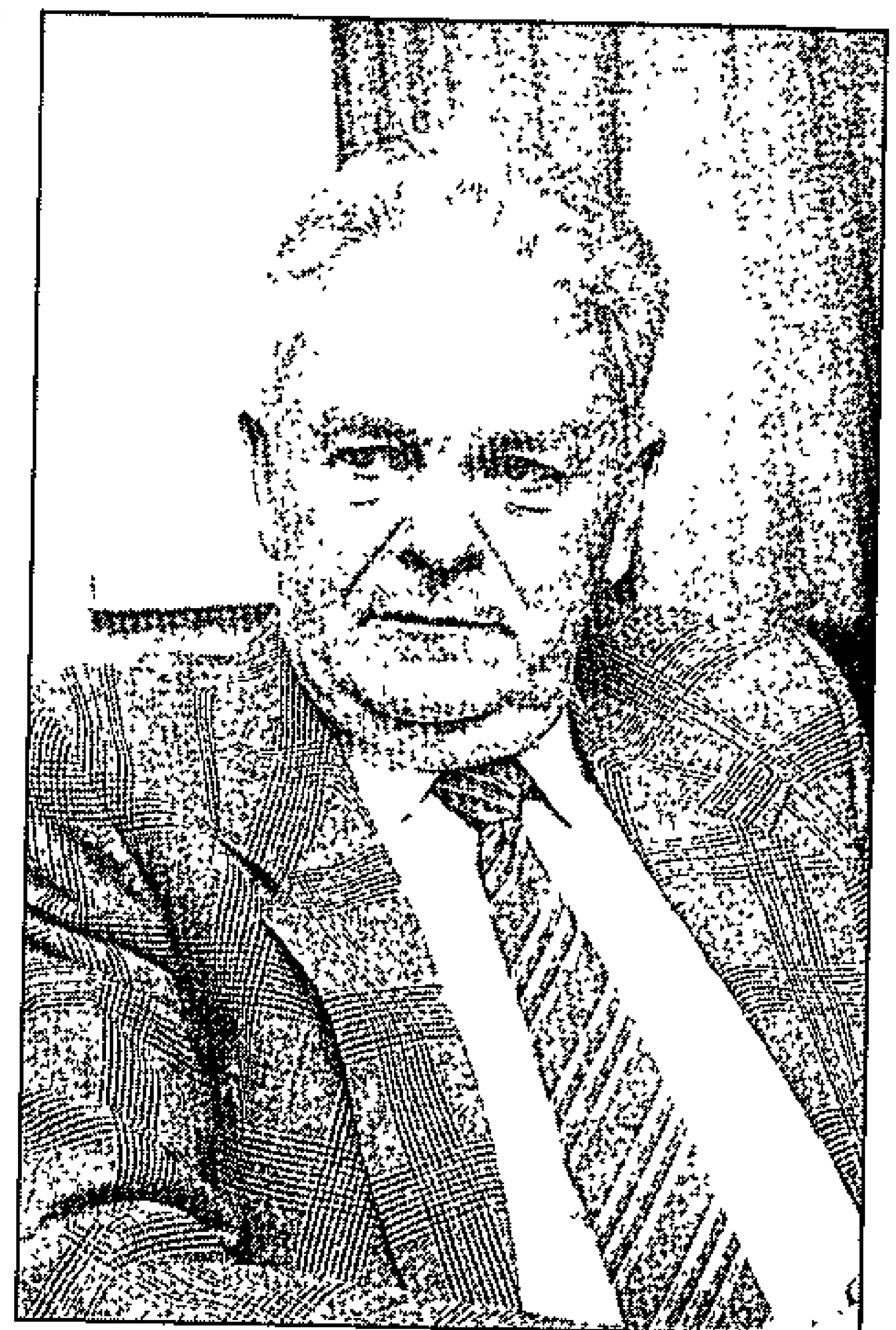
That probably means the former Volkskas chief, the youthful and survival-prone Danie Cronje, will be vital to the task ahead.

In view of progress to date and the deliberate, effective way in which the earlier mergers are being implemented, the larger group may well be melded together without any severe problems. The time scale, however, could be critical and it is possible Absa might have bitten off more than it can chew.

There is no mystery why Sankorp was persuaded to dilute its holding in Bankorp through the merger, just when executive chairman Liebenberg had completed his corporate surgery (write-offs of about R360m in financial 1990) and the group had swung back to a profit of R64,5m. Sanlam was over-invested in banking.

Sankorp deputy chairman and CE Marinus Daling says Sankorp first had a negative view of the deal due to timing but concluded the proposal had to be taken up when offered.

Firstly, the deal, he says, made so much business sense. Significant synergies can apparently be unlocked. Secondly, a year or two down the line, Absa might, for whatever reason (for instance, a rationalisation with another group), no longer have been interested — which suggests that, in principle, Sankorp was a willing seller.



Absa's Badenhorst ... *provoked a counter-attack*

It is easy to see why Absa wanted to swallow Bankorp. Cronje recognises Bankorp would have cost more once it had completely regained profitability. Moreover, it will probably be more effective to absorb Bankorp now than after Absa has been completely rationalised.

Badenhorst says the next big step would have been merging three regional offices and that can now take in Bankorp's regional offices. A later takeover would have meant repeating the process. Cronje offers another example: Bankorp's superior corporate cheque system will obviate the development of such a system within Absa.

In market share, Badenhorst says Bankfin and Senbank will make up for Absa lagging in two areas: consumer credit (where it had only 10%) and corporate finance. Volkskas and Bankorp branches are geographically complementary. Badenhorst says Absa does not intend to close any profitable branch or do away with any business names as each has a loyal following, including TrustBank.

The extent to which the merger will tilt the balance of the enlarged Absa from housing finance to banking is startling. At end-

FAIR EXCHANGE?

Absa and Bankorp shares

Cents per share	Before	After	% change	Before	After	% change
Earnings per share	93,4	86,3	(7,7)	15,9	34,0	50,6
Dividends per share ..	36,0	33,2	(7,8)	25,0	9,2	(63,1)
Net tangible asset value per share	622,2	729,0	17,2	323,9	202,5	(37,5)

Source. Absa

FM 7/2/92

THE ANC AND DAVOS

(11A)

What Mandela meant to say

Maybe the ANC does not fully understand the consequences of what it did in Davos this week. The bland face on nationalisation its president Nelson Mandela showed to international businessmen was belied by a statement from the ANC prepared for a panel discussion, which apparently did not take place. Mandela talked for too long.

The statement makes very clear that for all its talk of partnership with business and the importance of market forces in a mixed economy, the ANC has not moved away from nationalisation. If anything, its position has solidified.

The statement says that the ANC will single out what it calls the five giant conglomerates and to the extent that they are not investing in a manner which meets with ANC approval, they will be nationalised and their investment policies altered accordingly, to fit the ANC's idea of social fulfilment. That doesn't include making a profit.

Here is an extract: "Among the range of options we will consider is nationalisation within the framework of ensuring that key industries invest in the economy so as to strengthen it . . . SA enterprises are, at present, owned by a tiny clique controlling five giant conglomerates. Taking some key enterprises into public ownership will itself be a major step towards overcoming . . . inequality."

Well, nationalisation has not yet strengthened any enterprise. The danger of collapse has been too evident in eastern Europe and Russia to be taken lightly. Nor has it brought equality, other than in poverty. But perhaps that is beside the point.

The mystery is why Mandela did not skip his diatribe on poverty in general and in Africa in particular — it's been said by almost every African leader repeatedly before — and concentrate on what prospective investors really want to hear — the unequivocal ANC policy on nationalisation.

Of course, it is possible that President F W de Klerk persuaded him at the last minute that a united front would be more beneficial. If that be so, and Mandela fell for it, he has done the cause of prosperity in Africa much harm.

For the panel discussion notes have already had wide circulation. And the absence of any reference in his main address to the potent nationalisation policy they espouse could be interpreted as a lack of not only moral courage but integrity.

The interpretation among international investors is simply that the ANC is saying that any blandishment will do to get investors in and then, when it (the ANC) is in power, it will sock the suckers with nationalisation.

This interpretation is given further substance by the fallacious assertion made in the discussion document to justify nationalisation: that large corporations are not investing either sufficiently or appropriately but are spiriting profits out of SA, to the disadvantage of the poor.

To begin with, concentrations of ownership usually occur because of the success of investment policies, which implies that they must also have been reasonably appropriate. Secondly, private-sector investment has continued despite the recession of recent years. It is government's capital spending that has been curtailed.

Thirdly, one reason for lack of more buoyancy in domestic investment has been the trade sanctions campaign of bodies like the ANC and the financial sanctions imposed for other reasons by international banks, led by the Americans. It has been the cause, too, of domestic capital flight.

Fourthly, the disinvestment campaign supported by the ANC had to result in a greater concentration of ownership. Indeed, Harry Oppenheimer warned in a speech in the US in the early Eighties that all that disinvestment would achieve would be to make men like himself even richer.

If SA enterprises had not been ready to pick up the pieces after the many US companies pulled up roots and departed, black workers would have suffered even more.

That argument, of course, carries little sway with the ANC and fellow-travelling clergymen like Archbishop Desmond Tutu. They have repeatedly chosen the path to power rather than the more humble and difficult way to the alleviation of suffering and poverty.

In short, all the supposed economic shortcomings the ANC complains about now are the logical consequences of the destructive, inappropriate and indeed inhuman policies it propagated. Wise men like Alan Paton have repeatedly pointed this out in the past when refusing to support trade sanctions.

What the ANC has done at Davos indicates that an economics or business forum running parallel to Codesa would most likely be futile. Economic issues are today at the cutting edge of political division. They should form an integral part of the deliberations at Codesa itself, not be relegated to some inferior chamber where they can conveniently be marginalised.

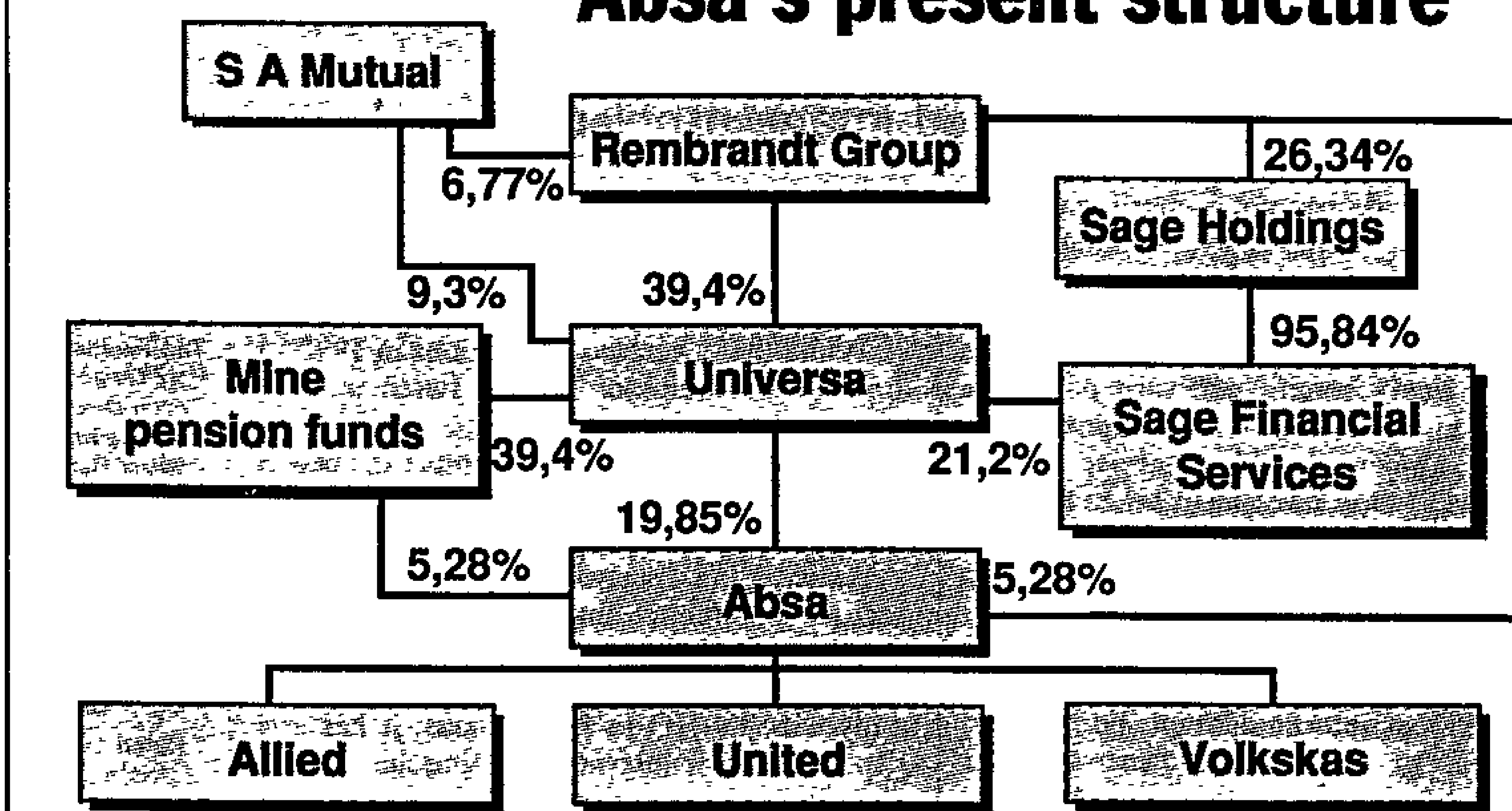
The ANC doesn't want them at Codesa so it can indulge in legerdemain. The Nats don't want them because their conversion to free enterprise is too recent to be anything but superficial. The danger is — as Schumpeter feared in a broader context and at another time — that free enterprise will be diminished or abolished by default. ■

March 1991, Absa's book was still heavily loaded towards home loans. Of total advances of R38bn, mortgage lending was R22,7bn — just short of 60%. Adding Bankorp's advances and other accounts of R22bn at end-June gives a R60bn total in assets.

Making the most of Bankorp's assessed tax loss of nearly R300m must have appeared attractive to both parties. This may be legally achieved, without falling foul of the rules about trafficking in assessed losses, by merging other banking business with TrustBank's (where, presumably, most of the loss is located).

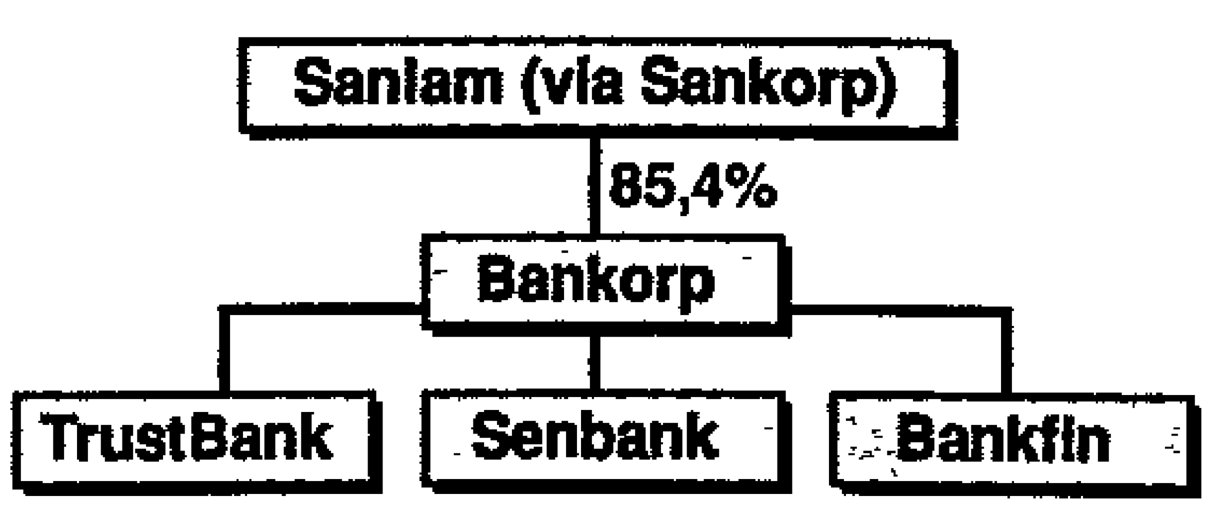
Nagging doubts remain whether Sankorp is being candid about its motives. Could the real sweetener have been the chance to gain control of Momentum Life, which, many observers believe, Sankorp's parent Sanlam considers a potentially threatening competitor? Cronje and Daling deny this. Daling admits there would have been an intolerable conflict of interest if Sankorp had ended up with 25% of a banking group (the stated intention of the merger) which held joint control of a major competitor of Sanlam's.

Absa's present structure



The holdings of the mine pension funds, Sage Financial Services and financial securities held directly in Absa or indirectly through Universa are pooled to give Universa a 30,41% voting capacity

Bankorp's three arms



In any event, Badenhorst says that "transaction-based" assurance contracts (reducing term insurance to safeguard bond payments) will remain within the Absa group. So will all short-term insurance marketed with mortgage loans, which Absa regards as an integral part of its marketing.

Badenhorst says Absa has already done a lot to rationalise the three existing components. The declared objective was to save R85m in costs, of which R75m has already been recovered in the first year. Remarkably, net pro forma income attributable to Absa shareholders for the year to March 31 1991 was about R321m.

There is now one central treasury which will include Bankorp's. Instead of seven computer centres, there are now only two. Absa top management has already evolved a "closely knit team" with no differences in outlook.

The merger of the pension funds should be formally completed and approved by April 1. Standard pay packages are already in place. Pension benefits, job grading and promotion will be made uniform.

Badenhorst says Absa recognises the need to reduce the staff complement "materially." This has been done, and will continue to be done, with sensitivity, relying on normal attrition. Numbers have already been substantially reduced, but more is needed.

The table shows the terms for Bankorp shareholders in the swap that will give effect to the merger. They will lose heavily in NAV and dividends but gain much in earnings. It does seem unfair that the proposal for an exchange of shares was not backed up by a cash alternative. It is surely not too late to amend the offer.

Could the big banks rationalise further? It seems unlikely. Each banking group now has ties with a major life assurer — Absa with Sanlam, Nedcor with Mutual, Standard with Liberty and FNB with Southern. The big four will now slug it out. Stanbic chairman Henri de Villiers says his group is "big and ugly enough."

FNB MD Barry Swart says Absa is clearly vulnerable in mortgage lending, where it holds 44% of the market. Indeed, FNB's immediate response was to cut its mortgage lending rate by half a percentage point. Standard followed with one percentage point, whereupon FNB cut another half.

Though all banks maintain that competition for banking business is already intense, this does not mean it cannot become more so. As it hots up, it will severely test the mettle of the men who are simultaneously trying to rationalise formerly very disparate institutions. It is what they do and how they react that will give the first hints of success — or otherwise.

Robin Friedland

Sankorp's Daling ... *might have preferred to wait*

FEDLIFE FM 7/2/92

Brave new fund (58)

Fedlife confirms it is the institution that injected R4m cash into Grant Andrews Holdings (*FM* January 31). It is the first investment by the new R50m Fedlife Capital Trust and this week Fedlife announced a further investment by the trust: 24% of domestic furniture manufacturer Pat Cornick.

The trust represents a drop in the ocean of institutional cash flow but is a rare attempt to divert institutional investment from JSE blue chips. Fedlife deputy GM Dennis Paizes says there are no great benefits for an institution in investing in second-tier shares because they lack marketability. Moreover, they are usually tightly controlled by directors and their friends.

Through the Capital Trust, Fedlife hopes to acquire between 25%-49% — though not control — of smaller listed and unlisted companies. It is ideally looking at equity stakes of R2m-R5m which it hopes will provide above-average returns.

Paizes says Fedlife does not have the skills to run industrial companies, so has given the management contract for the fund to Templeton Capital, a new consultancy run by Antony Ball, who wrote the strategic planning guide *The Winning Way*, and Thierry Dalais, who was MD of Merhold Corporate, the group's merchant banking arm.

Both are accountants as well as "strategists". They will take an equity stake in each investment.

By contracting out the service, Fedlife hopes to avoid strangling entrepreneurial businesses by a stifling corporate culture. It is emphatically not an attempt to build up an industrial holding company. It will not invest

contin →

FOX FM 7/2/92 (58)

in new ventures, property or mining

Ball says that ideally companies will be at least five years old and have a significant market share. "They will know a lot about their markets but might like financial and strategic planning skills to expand successfully.

"We aren't turn-around specialists," says Ball, "but Grant Andrews Holdings seemed a particularly good opportunity, as we liked its plans for the next 18 months."

Most institutions invest ad hoc in smaller companies but Fedlife claims its fund is unique because it seeks out investment opportunities and focuses on taking a stake rather than making a loan.

Share swops

Dalais says Templeton will impose financial discipline on investments but, unlike a bank, won't expect guaranteed returns. It will take a long-term view if there are problems — though it won't hesitate to pull out if an investment risks being a bottomless pit.

Fedlife group CE Arnold Basserabie says the fund is yet another step in the plan to offer a wide range of financial services (empire building?) It follows logically from the share swaps with Saambou and Investec.

The fund is a laudable attempt to break away from the preoccupation with blue chips but it is not without dangers. Though Fedlife doesn't seek control, it could end up sending out life belts to these companies, as Senbank has done.

Stephen Cranston

HOUSE PRICES

FM 7/2/92

Keeping up with inflation

58

Absa's *Quarterly Housing Review* (October-December) coincided with the announcement by some banks of a one-percentage-point drop in mortgage rates.

The fall is welcomed by estate agents who feel it is likely to have a good effect on the market. More important, believes Pam Golding Properties executive director Mike Bisset, is that the move is a "precursor of a downward trend in bond rates."

He argues: "While the R76-a-month saving it means on a R100 000 bond is not that significant (it's not a quick fix and I don't expect estate agents to be inundated with buyers), what is important is the feeling of confidence and optimism this step engenders. Investors who have been sitting tight will be more bullish about investing in property, capital plant and machinery and in starting new businesses."

Effects of the bond rate cut will be more clearly seen in Absa's next quarterly review but the latest report shows that house prices kept pace with inflation last year. The average price of a medium-sized house is R119 400 — up 15% from 1990's figure, and last year wound up with an increase of 16% year-on-year in the fourth quarter.

During the quarter small houses ($80\ m^2$-$140\ m^2$) sold for R106 000 on average; medium-sized ones ($141\ m^2$-$220\ m^2$) for more than R125 000; and larger houses ($221\ m^2$-$350\ m^2$) for about R170 000. In real terms, the annual change was: 0,1% for small, -0,5% for medium, and -3,9% for large houses.

Bisset says the real drop in the price of large houses reflects the lack of confidence in the residential market during the latter half of 1991. He notes: "The residential market, especially at the top end, is driven by business and economic confidence. The bond rate drop, with its hint of more to come, is bound to have an appreciable effect on this level of confidence and, as a result, on the prices to be attained in the market during 1992."

Notwithstanding Absa's reported 19% year-on-year increase in the volume of transactions, Bisset expects this figure to be even greater during 1992 as the lowering of bond rates increases confidence and encourages home purchases.

According to Absa, building costs increased by only 11% (year-on-year) in the fourth quarter, bringing the total increase for 1991 to 14,7% — just below the CPI rate of about 15,2%. The rise in building costs to an average of R790/m^2 in the fourth quarter means that a new home is still 22% more expensive than a comparable existing house.

A 6% rise in the price of medium-sized houses in the Durban-Pinetown area in the fourth quarter was recorded; 5% in the rest of Natal; 4% in the western Cape and on the East Rand; 3% on the West Rand; and 1% in Pretoria and the rest of the Transvaal In the

SEE HOW THEY RUN: WHAT YOUR HOME IS WORTH

House prices* in the fourth quarter 1991

	House size	Average building area	Average land area	Average price of older houses	Average price of new houses	Average price of all houses	Quarterly % change	Annual % change
	Small	113m²	781m²	R101 326	R128 757	R105 961	4	15
1. Republic of SA	Medium	179m²	1 007m²	R121 862	R179 400	R125 326	3	16
	Large	265m²	1 302m²	R163 618	R250 025	R170 355	3	13
	Small	111m²	651m²	R113 071	R153 872	R117 489	−2	3
2. Johannesburg	Medium	180m²	822m²	R151 848	R237 859	R160 716	2	15
	Large	268m²	1 262m²	R208 144	R310 296	R216 699	1	11
	Small	111m²	822m²	R104 032	R163 915	R124 608	4	19
3. West Rand	Medium	178m²	1 049m²	R124 367	R211 259	R129 616	3	16
	Large	255m²	1 342m²	R175 453	R292 525	R179 293	7	12
	Small	113m²	889m²	R86 982	R113 144	R93 149	6	18
4. East Rand	Medium	178m²	1 015m²	R106 592	R171 785	R107 974	4	13
	Large	262m²	1 208m²	R142 732	R235 809	R144 739	−1	10
	Small	111m²	921m²	R100 811	R114 614	R101 856	2	12
5. Pretoria	Medium	177m²	1 110m²	R123 901	R160 951	R127 098	1	10
	Large	265m²	1 339m²	R168 936	R238 178	R177 815	−1	12
	Small	124m²	1 152m²	R62 347	—	R64 256	3	11
6. Vaal Triangle	Medium	179m²	1 117m²	R75 890	—	R77 462	0	3
	Large	272m²	1 372m²	R118 167	—	R115 948	−1	3
	Small	121m²	1 017m²	R79 622	R112 653	R82 069	4	20
7 Rest of Transvaal	Medium	184m²	1 270m²	R86 760	R131 500	R87 789	1	3
	Large	275m²	1 462m²	R115 792	R170 074	R120 699	0	3
	Small	114m²	1 215m²	R111 282	R124 796	R116 303	1	25
8. Durban-Pinetown	Medium	179m²	1 438m²	R157 237	R201 293	R160 546	6	29
	Large	262m²	1 627m²	R205 738	R231 415	R204 315	4	21
	Small	121m²	1 236m²	R97 968	R80 050	R96 641	9	37
9. Rest of Natal	Medium	181m²	1 266m²	R108 703	R126 317	R109 763	5	22
	Large	261m²	1 640m²	R143 058	R202 995	R146 937	8	11
	Small	123m²	1 005m²	R68 232	R72 547	R68 284	6	−2
10. OFS and N Cape	Medium	182m²	1 157m²	R88 278	—	R84 744	−1	16
	Large	267m²	1 383m²	R117 483	R157 193	R116 928	−4	12
	Small	116m²	700m²	R84 884	R107 686	R85 999	2	14
11 Eastern Cape	Medium	180m²	901m²	R110 509	R162 521	R112 107	2	15
	Large	263m²	1 165m²	R172 187	R246 688	R179 290	2	32
	Small	114m²	553m²	R109 766	R130 277	R113 897	4	16
12 Western Cape	Medium	176m²	743m²	R145 086	R177 371	R152 659	4	21
	Large	263m²	988m²	R201 944	R263 794	R207 126	4	14

*House prices lower then R30 000 and higher than R400 000 have been excluded from the calculation.

Source Absa

continue →

P.T.O.

INSURANCE FM 7/2/92

Not in church (58)

An unsolicited policy offer from Bankfin to about 25% of its 130 000 clients has backfired. Bankfin has hurriedly apologised and changed the terms of the offer, which was originally couched as a peremptory contract alteration.

In December a letter went to Bankfin's clients informing them they would be debited, from January, with an extra insurance amount as a premium to Coversure. The letter said Coversure was a policy designed to cover, among other things, any shortfall between insured value and replacement value of articles bought on suspensive sale. Such policies are not new. Scherre Underwriting Managers, which acts on Bankfin's behalf, has been selling them for five years. Hollard Insurance underwrites Coverplus, which is offered to Wesbank clients when new leases are signed, with the intention of covering the difference between settlement figures and market figures that always exists at the outset of a lease.

But with Bankfin's original approach

Continue →

 FM 7/2/92 (58)

there were two problems. One was that there seemed no option to refuse if a car was underinsured. The second was it went to a faulty database, so many businesses that had financed office equipment through Bankfin were also informed their accounts would be automatically debited for the additional cover. Some of those with fax machines used them to express outrage, with copies to the Financial Services Board.

Coversure is arranged through Scherre, a Lloyd's underwriting manager, totally separate from Santam, which was Bankfin's short-term underwriting cousin before the Bankorp-Absa merger. Scherre chairman Richard Barkhuizen says his firm assisted brokers Bancura in compiling the controversial letter. Barkhuizen adds that Scherre subsequently set up a toll-free line to handle difficulties that emerged from the mail shot. "And most recipients are grateful for the extra security," he says.

Bankfin CE Dolf Wright says the project was mounted by his group's brokers, Bancura. "The way it was handled was wrong but it went out in the rush to complete things before the December break. When the problems were pointed out to us, we took action to correct them."

But, has Bankfin gone far enough? In a letter to clients dated January 24, the bank stated: "The Coversure premium has been or will in the very near future be reversed against your account in respect of goods other than motor vehicles."

So, as far as motor vehicles are concerned, the diktat stays in place — though, contradicting this, Wright says it's no longer compulsory. By placating the extended-term buyers of copiers and knitting machines, Bankfin may simply have highlighted a marketing ploy that is becoming increasingly popular and increasingly undesirable. It can hardly be good commercial manners to mail insurance, chain store magazines or any other commodity, unsolicited — if the recipient is obliged to take positive action to reject the offer. Even worse, to gain access to a database of bank or savings accounts and milk them of amounts that have not been expressly authorised, cannot be ethical and is probably contractually invalid. However, Wright points to a clause in suspensive sales contracts that allows banks to enforce insurance arrangements.

In the case of the Bankfin farce — and too often in the case of "offers" introduced through credit and charge accounts — there is reliance on consumer inertia. This time, the consumer fought back. ■

BANKING FM 7/2/92

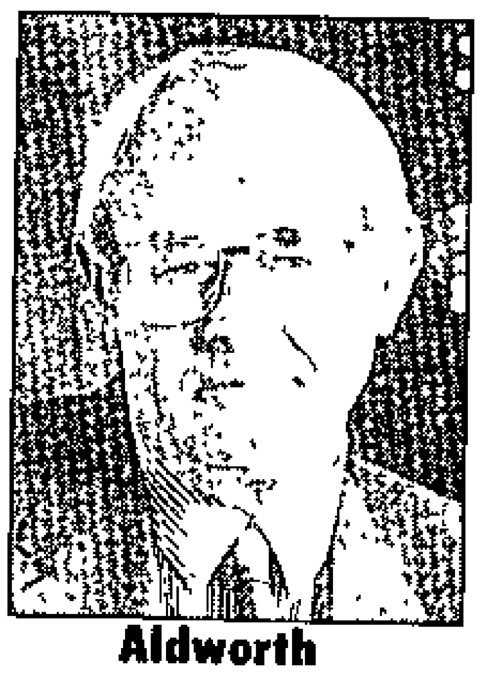
Corporate cake

(58)

Despite the highly publicised rivalry between banks for the home-loan business, an important focus of competition in the months ahead is likely to be the corporate market.

Absa, with its building society origins, holds 39% of the home-loan market. Its acquisition of Bankorp last week, effective from April 1, gives it Bankorp's TrustBank portfolio to boost the holding to 44%. Secure in this area, the megabank is likely to channel its energies into establishing a stronghold in the corporate world, now the domain of Standard and First National banks and Nedcor.

Even after the merger with Volkskas a year ago, Absa holds only a sliver of the corporate market — possibly less than 7% — and much of this consists of public-sector companies, agricultural co-operatives and marketing boards. With Senbank (home of Bankorp's corporate portfolio) holding assets


Aldworth


Prentice

of about R11bn, the slice will improve significantly, says Bob Aldworth, executive director in charge of corporate business. An analyst suggests that the addition represents a "quantum leap in corporate business" and was undoubtedly the main attraction for Absa in the Bankorp package.

Precise numbers on the corporate market are unobtainable. Unlike mortgage loans, which are identified in statutory returns to the Deposit-Taking Institutions Office, corporate business is buried along with retail and personal business in a wide range of transactions itemised on returns.

Moreover, in a volatile environment, big corporations have relationships with most of the major banks, switching business between them to take advantage of the best price and product offered at any given time. So the relative turnover of the various groups is ever changing. The absolute size of the market expands and shrinks daily because megacorporations, with their own treasury operations, are able to handle certain cash flow situations without contravening the DTI Act and do so when it suits them.

For this reason it is impossible to measure either total market or relative share except in very general terms, and analysts have to be content with ballpark figures. Most observers agree that Standard, First National and Nedcor are ahead. Some say Absa could be within touching distance of the lead runners; others say only that it is now in the race.

To make further progress will take some ingenuity. Margins are thin, say bankers. Corporates, unlike retail customers, have great bargaining power and, to retain their custom, banks cut close to the bone with pricing. The only way to get ahead of a competitor, say corporate bankers, is to design a new product which costs the client less without costing the bank more.

Over the past few years, since Volkskas decided to attack the corporate market, it has built up important transaction business and participated in big syndicated loans to finance capital projects. It is a major commercial banker to State and former State companies — among them Iscor, Armscor and Eskom — as well as to some of the country's biggest universities and technikons. It was well positioned to absorb business generated by privatisation and, once this came to a stop, took advantage of commercialisation of government operations.

But it does not have many lead bank relationships with major groups in the private sector. Now Senbank, which absorbed TrustBank's corporate business when the group was restructured in 1990, will contribute further important lead-banking relationships to the enlarged group.

How Absa will slot together the various pieces of its corporate operation — which includes Volkskas Merchant Bank — is not known. The operation is now run by Angus Prentice, formerly of Allied and First Industrial Bank He acts as relationship banker for the operations of the three component parts: United, Allied and Volkskas.

"I look after the top end of the market so my work relates mainly to generating business for United and Volkskas. Allied tackles more the medium-size companies through its own operation."

As part of their corporate strategy, all banks are considering expanding their international operations. But, while extending business, Absa will presumably rationalise its two London branches (Volkskas and TrustBank). Trust also has a representative office in Hong Kong.

Of the other banks, Nedbank has a branch in London, a subsidiary in Hong Kong and representative offices in Taipei, New York and Frankfurt; First National has representative offices in London, Zurich and Hong Kong, and Standard has a branch in Taipei and representative offices in London, Zurich and Hong Kong. Standard plans to open a subsidiary in London this year.

Bankers see growth potential in the corporate and commercial sectors — despite the hold up on privatisation — given a reasonable political settlement. They say growth will come not only from big corporates but from an unprecedented thrust into the medium and small market as new businesses emerge in a recovering economy. ■

Implats slips far behind Rusplat as prices surge

B/Day 7/2/92

MATTHEW CURTIN

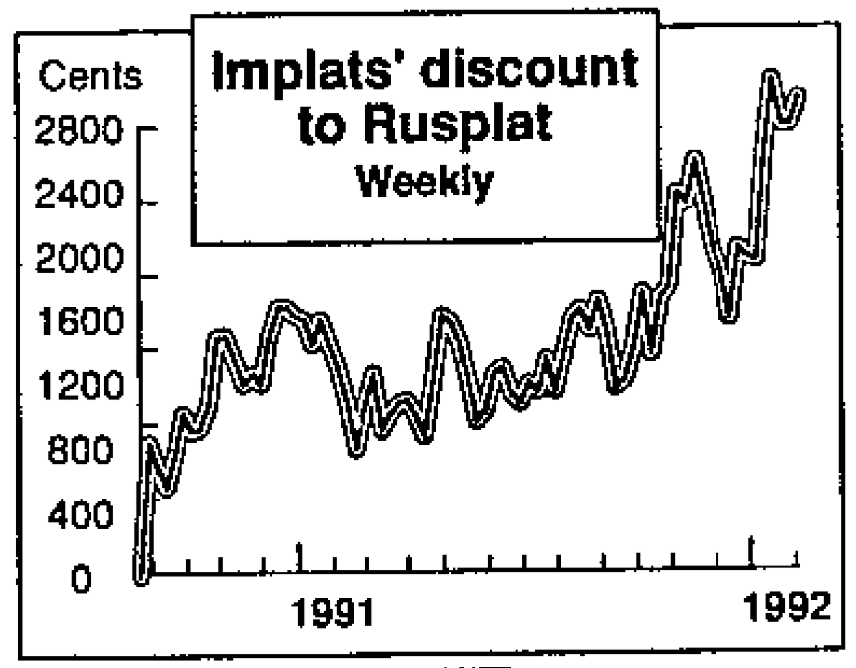
IMPALA Platinum (Implats) traded at its widest discount to market leader Rustenburg Platinum (Rusplat) on the JSE yesterday as another sharp rise in platinum prices boosted shares on the platinum board.

Implats last traded at a premium to Rusplat in August 1990 — 50c for just one day — and yesterday the gap between the leading platinum stocks widened to R28,25.

Although Implats gained 235c to move 6% higher to R41,75, Rusplat surged ahead by 500c or 8% to close at R70. Lebowa Platinum, Northam and Potgietersrust Platinums made good showings and the index rose 298 points to 4 391.

Platinum traded as high as $368 an ounce in New York yesterday, its highest level since December 12. In London the metal was fixed in the afternoon at $365,25, up from the morning fix of $362,25.

The wildcat strikes which have



Graphic FIONA KRISCH Source I-NET

disrupted production at Implats' mines in Bophuthatswana have not only dented the company's market rating, but have contributed to the revival in metal prices since the New Year.

Implats reports its interim results for the six months ended December next week.

Analysts expect details to emerge about how badly platinum production has been hit.

The labour relations troubles, linked to the NUM's battle for recognition at the mines in defiance of homeland labour legislation, have spoiled Implats attempts to improve its stock market rating. Chairman Brian Gilbertson lamented in August last year that the group's effort in this regard had "proved remarkable mainly for its failure".

However, Holcom Futures analyst Lindsay Williams said yesterday reports that Implats had had to buy or lease significant amounts of platinum to meet short-term contracts had buoyed the market in recent weeks. Another industry source said the market might have underestimated the extent to which Implats had suffered production losses.

Williams said what was now driving platinum prices upwards were reports that stocks of platinum and other metals in the former Soviet Union were so low that exports would be sharply down this year, against the record levels of 1991. Surging supplies of platinum, rhodium, nickel, aluminium and other commodities from the Soviet Union knocked market sentiment.

Currie Finance curve suffers minor hiccough

Business Day Reporter

(58)

CURRIE FINANCE's steady growth pattern of the past few years suffered a minor hiccough in the half-year to end-December, but chairman Mackie Brodie is confident that full year earnings will more than match those of fiscal 1991. B/Day 7/2/92

Earnings, including income of associate companies, rose only 3% to R4,8m — equivalent to earnings of 34,3c a share — despite a 16% rise in income from SA Freight Corporation (Safcor), the group's main earnings generator.

The problem arose in the property division where the company had to effect a number of repairs and maintenance, said Brodie. The group has an industrial property portfolio valued at between R40m and R50m. All properties are fully let to "first class tenants", some of whom wanted extras or alterations done during the period. The result of the unusual and mostly non-recurring outlays was that income from non-freight operations declined 19% to R1,584m.

This should not overshadow the strong performance from Safcor, which lifted its attributable profit 16% to R7,66m, despite a difficult market which proved to be weaker than Safcor management had anticipated. Careful trading and a modest improvement in domestic activities were cited as the reassons for the 11% rise in group operating income to R14,73m. Earnings a share rose 14% to 34,0c.

Although management is expecting another tough six months, it is hoping to maintain the improvement of the first half.

Insurer says anti-selection taking place in AIDS claims

BDay 7/2/92

LINDA ENSOR

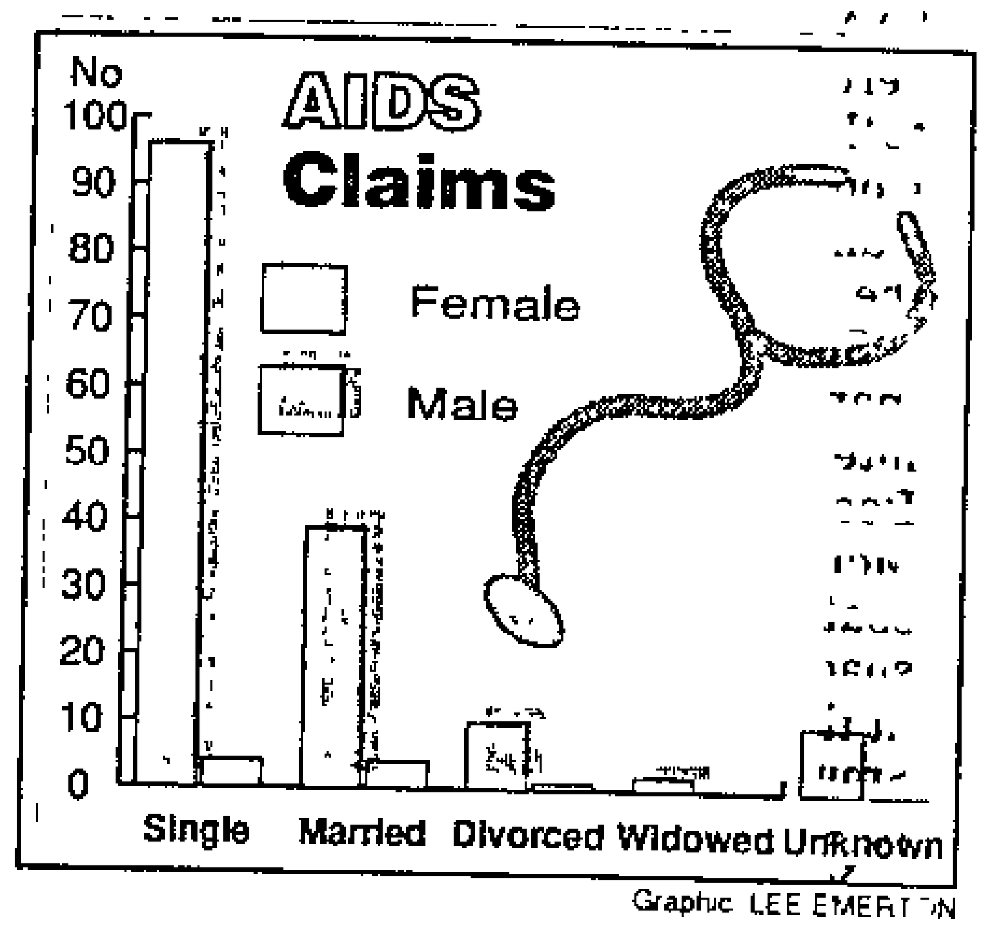
CAPE TOWN — The short average duration of policies on which AIDS claims were made suggested that anti-selection was taking place, a report on AIDS claims compiled by reinsurer Mercantile & General said.

Anti-selection means a person with AIDS or HIV infection takes out a policy with a view to shortly receiving a payout.

Nearly 70% of the 281 AIDS claims received by the life industry from 168 people by January 14 occurred within the first five years of the policy's existence.

A survey of the industry found that virtually all the policies had sums assured lower than the limit of R200 000 imposed by the Life Office's Association before an HIV test was required. Mercantile and General said many life offices had already reduced their HIV testing limit to well below this, adding that the statistics suggested that this was the correct course of action.

"In view of the increasing rate of HIV infection in SA, it is important that life offices regularly review their HIV testing limit," Mercantile & General said.



Graphic LEE EMERTON

As at January 1992 there were 109 more claims than the 172 as at Janaury 1991, with the number of claimants escalating to 168 from 96 during the year. The total amount claimed soared 50% or by R3,5m during the year.

Of the claimants, 159 were male of which 98 were single, 39 married, 10 divorced and two widowed. The status of 10 was unknown. There were nine female claimants. The average age of claimants was 37 years.

Banks unlikely to cut rates

STAR 10/2/92.

By Sven Lünsche (58)

It is highly unlikely that commercial banks will reduce their interest rates without a cut by the Reserve Bank in its key rate, says First National Bank economist Cees Bruggemans.

Mr Bruggemans was reacting to a statement by the SA Chamber of Commerce (Sacob) last week, in which it predicted that rising liquidity in the money markets could lead commercial banks to pre-empt the Reserve Bank.

"This suggestion is not a realistic reading of the relationship between the banking system and the Reserve Bank," Mr Bruggemans said.

The Reserve Bank guides its broader macroeconomic polices through regulating the money market shortage.

At times of higher liquidity banks could decide to sacrifice their profit margins in order to gain market share.

However, said Mr Bruggemans, this could clash with broader monetary policies, particularly the money supply guidelines set by the Reserve Bank, and could invite a tightening of the money market shortage by the Bank.

"It is thus too risky and uncertain for commercial banks to go it alone as they could be left facing losses without gaining significant market share," he said.

Economists generally do not expect a significant easing of monetary policy this year.

In a release over the weekend, Bureau for Economic Research chief Dr Ockie Stuart said the high inflation rate would continue to delay substantial interest rate cuts by the Reserve Bank this year.

"Most of the cuts should occur in the second half of the year," Dr Stuart said.

He expects the average prime interest rate for this year to be only about 1,25 percent below that of last year.

THE MONEY MARKETS by Sheridan Connolly

Expectations of a Bank rate cut buoy the market

BDay 10/2/92 (58)

ACTIVITY on a lacklustre money market picked up at the end of last week with expectations running high of a cut in the Bank rate.

Renewed positive sentiment was sparked off by the briefer-than-intended appearance of Reserve Bank governor Chris Stals on Diagonal Street on Thursday night when he hinted at an imminent rate cut. Some dealers foresee the Bank moving sometime this week.

Stals's comments — cut short by technical problems — gave the market some fresh direction. But there are still some players who believe Stals might wait until next week when January's inflation data is expected to be published.

The last two years of stringent monetary policy have succeeded in bringing wage demands into line but have, so far, not brought inflation down. However, dealers are confident January's CPI will provide some breakthrough.

After initially moving sideways, rates dropped towards the end of the week, and on Friday dealers quoted both call and term rates lower.

Liquidity conditions are expected to be stronger next week when mid-month stock matures, but the Bank will no doubt act to drain this liquidity with the allotment of special Treasury Bill (TB) tenders.

A massive oversubscription in the weekly TB tender of R1,011bn reflected the market's search for quality liquids. The average discount rate for SA's three-month TB rate dropped eight points — the allotted R200m tender saw the TB rate drop to 15,94% as against last week's 16,02% and 16,06% the previous week. The Reserve Bank said tenders at the average price were only partially allotted.

With a continued build-up of liquidity, the BA rate slid downwards throughout last week. After starting at 16,20%, it fell to 16,10% and late on Friday Standard Bank dropped its BA even further to 16,05%. Dealers said the demand for assets was outstripping supply, and lower rates showed there were a lot of people chasing only a few assets.

FNB quoted call rates lower at 15,75% and said 12-month NCD's had come down to 16,50/40 from 16,60/50.

FNB sets sights on British subsidiary

58

B/Day 10/2/92

JABULANI SIKHAKHANE

FIRST National Bank is to ask shareholders for R550m to help establish a subsidiary in the UK and to recapitalise its Swiss finance company, says senior GM and chief financial officer Vivian Bartlett.

Bartlett said yesterday FNB felt market conditions were right now to raise funds.

Details of the issue will be made known on Monday, February 17, according to a statement to shareholders published today.

The Swiss subsidiary has been in existence for years although Bartlett was reluctant to provide details of the operation.

The proposed UK operation was the subject of a feasibility study last year.

In today's announcement FNB said that the proceeds of the rights issue would provide FNB with additional capital, which would strengthen its ability to "maximise opportunities for appropriate, profitable growth in both the domestic and international markets".

This follows the announcement in the annual report that the group is investigating opportunites to expand its operations to other, unnamed countries.

News of the rights issue comes after strong denials by FNB in December that it was planning a rights issue.

Market speculation at the time suggested that the banking group would need to raise between R1bn and R2bn because of the capital constraints on growth imposed by the Deposit-Taking Institutions Act.

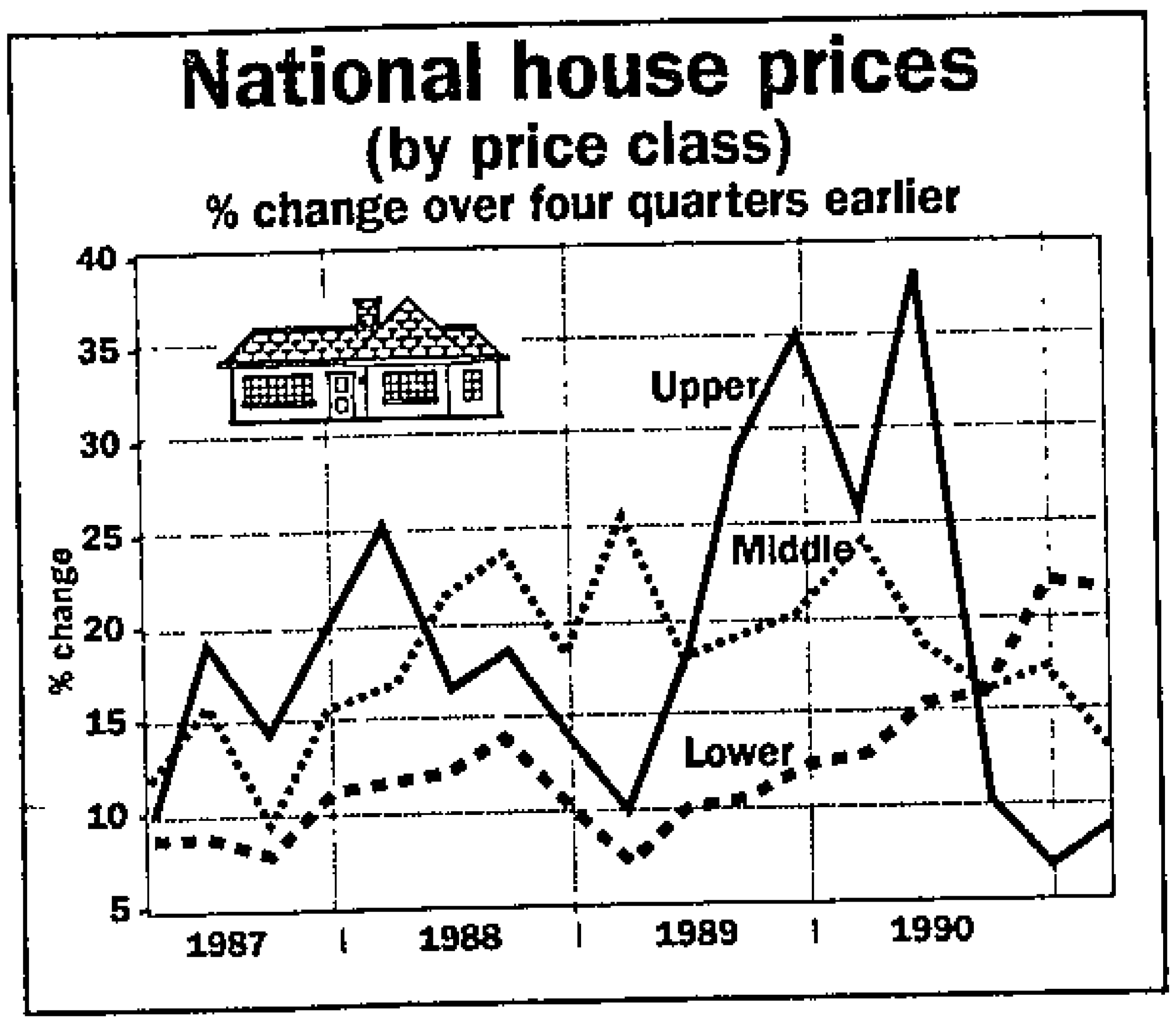
Analysts felt FNB needed capital to grow its asset base. In the past few years the banking group had restrained its asset growth to concentrate on quality business.

The 1991 annual report said the group had a total capital adequacy requirement of 8%. The Deposit-Taking Institutions Act says institutions should maintain capital equal to 4,5% of risk adjusted asset and off-balance sheet transactions.

By 1995, deposit-taking institutions would need to lift this to 8%.

At the end of the 1991 financial year, FNB had a 1,1% return on total assets.

The group shares closed at R58,50 on Friday from R54 at the start of the year.



Average rise of 14% predicted for house prices countrywide

STAR 10/2/92

58

By Frank Jeans

House prices nationally could rise on average by 14 percent this year, says Cape consultancy, Real Estate Surveys.

Erwin Rode, research director of RES, says: "This is higher than our previous forecast and, should our prediction prove to be accurate, it could bring some relief to developers' margins before the economic upturn pushes up input costs to above the growth in house prices."

He sees the number of house transactions increasing steadily during this year, the implication being that there will be more work for estate agents and conveyancers.

The survey gives a breakdown of house price growth in recent years — 1989: 16 percent; 1990: 20,1 percent; 1991: 15,4 percent.

In the past year, Johannesburg prices rose by an average 11,8 percent.

The upper market accounted for 7,8 percent, the middle-income sector 16,1 percent and the lower end 16,7 percent, indicating again how much affordability plays in the residential market today.

RES says signals from the office market suggest that the recession is beginning to bite, while the industrial market is "hanging on by the skin of is teeth" as rents drop.

Non-residential building contractors, says the survey, are in a "state of panic as new contracts dwindle".

Capitalisation rates on average have remained stationary in most cities and across all property categories.

The exception is in non-prime offices, where cap rates are under pressure as investor confidence in such buildings diminishes.

"The office market is in a fairly depressed state at present, with an overall tendency towards rising vacancies and falling market rentals.

"Prime office rents are generally shifting downwards in most areas."

On the retail side, shop rents appear to be holding their own, although rentals in some areas are tending to slip in nominal terms.

Flat rents, on average, are still moving upwards and rental growth in most areas over the past year has outpaced the inflation rate by a wide margin.

RES believes building activity in the home sector is picking up from a low base and has a better chance for the coming year.

Demand boosts bank's bond issue

58

B/Day SEAN VAN ZYL 10/2/92

THE Development Bank of SA's Eurobond issue, launched in Frankfurt on Friday, has been lifted by 33% to DM200m following strong investor demand.

Development Bank spokesman Frans van Rensburg said at the weekend the value of the issue was increased due to an oversubscription for the six-year paper.

Although the issue had been increased by DM50m the issue's lead manager, Bayerische Landesbank Girozentrale, said the issue terms would remain unchanged.

The Eurobond issue offers a coupon rate of 10% and the bonds will mature on February 27 1998. They will be listed in Munich and Frankfurt in denominations of DM1 000 and DM10 000.

Meanwhile, the ANC has reiterated its opposition to the bond issue and has denied there is conflict between the organisation's publicity department and ANC president Nelson Mandela on the issue.

A statement said the ANC accepted a "future democratic state" had an obligation to pay foreign debts incurred before financial sanctions were imposed.

However, the terms of repayment of such loans might be renegotiated, it said.

"What is totally unacceptable to us is the attempt by the SA regime, acting in concert with certain foreign financial institutions, to bust financial sanctions adopted by the international community." Most financial sanctions against SA came into force in the mid-1980s.

Lower bond rates now on offer to a selected market

STAR 12/2/92. (58)

Financial service and banking group The Board of Executors (BOE) has entered the home loans market, offering rates below generally available levels to selected borrowers.

Rates offered by BOE Merchant Bank are dependent on the credit rating of the client and are currently pitched at between 17,5 percent and 18,5 percent.

According to BOE Merchant Bank AGM, Richard Harman, bonds processed so far have attracted an average rate of 18 percent — at least 0,5 percent below the best rate available in the marketplace.

Most lending institutions have pitched their rates at 19 percent from March 1 only, but these rates are currently available from BOE on any new bond. These rates thus compare favourably with the 19 percent that will be available to most borrowers from other financial institutions.

BOE's average bond is R425 000.

Mr Harman says: "The savings that can be achieved are significant. A reduction of 1,5 percent in the interest rate payable on a 20-year, R300 000 bond results in a total saving of R84 386 or R351,61 a month. If these funds are applied to reduce the bond, then the term of the bond is slashed from 20 years to 12 years and 11 months.

"Alternatively, if the funds are invested at an after-tax return of 15 percent compounded monthly, the borrower would accumulate a lump sum equal to R526 444 at the end of the life of the bond."

BOE's service is aimed at the upper income group, able to provide the security of residential property worth a minimum of R500 000. This is in line both with BOE's existing client profile, and its target market.

"Ours is a niche market where we have identified a specific mortgage bond finance requirement — that is, as a simple loan against the tangible security of their property, with the proceeds of the loan being used in any way that the borrower may require."

Mr Harman contrasts the BOE approach to that adopted by other banks and by building societies:

"Competition has stimulated the emergence of a whole new range of complex and sometimes confusing home loan products and options. For example, there are those which allow the borrower to redraw the capital that has already been repaid and those where the capital portion of the repayment is used to buy a retirement annuity or to invest in unit trusts."

"While products of this nature have their place, our market is seeking a pure loan against existing security without a linked obligation for the additional products and services. We leave the investment option up to the client.

"In concentrating on this core product — the loan itself — we are able to give the borrower the benefit of highly competitive rates."

Nevertheless, the product remains flexible. For example, BOE clients may apply to suspend the repayment of the capital for the first five years of the loan.

"This frees, for investment, any funds that would normally have been applied to capital repayment. If a client does elect to repay capital, we are prepared to re-advance the funds at any time."

Access to a home loan facility from the bank is not easy. In addition to the security of residential property in a prestige suburb and worth a minimum of R500 000, BOE home loan clients must also have a personal net worth of about R500 000.

A range of considerations to take into account now

STAR 12/12/92.

(58)

Steve Bird, marketing manager, Perm home loans, who says a home loan is a home loan is a home loan, notes that the one percent drop in the bond rate means two things — a range of products and a differentiated rate structure depending on the risk of the client or his or her property.

"In the past you could go to a building society and everyone got the same rate."

But with bond rates being much the same, Perm reckons that prospective borrowers must take a whole range of other considerations into account.

And topping these is service and reliability. Perm, as one of the leading mortgage lenders has been in the market a long time having started out with its head office in Kimberley last century.

Since then it has played a major role in providing homes for hundreds of thousands of South Africans of all colours and creeds.

In fact, the Perm prodly points out, it has a client base of several million and estaimates that it commands a sizeable 17 percent of the home loan market.

But times have changed since the building society days. Years ago, would-be borrowers almost had to know the branch manager on a personal basis to even be considered for a home loan.

How that has all changed. Today, Perm like all mortage lenders is aggressive in its marketing and is there to assist people in applying for home loans.

What once was a gruelling job for the borrower and estate agent is a pleasure when dealing with lenders such as the Perm.

Home loan lending is now more like traditional bank lending and the jockey is more important than the horse; the jockey being the borrower and the horse the property. A change, indeed, from the old user-unfriendly system!

Mr Bird says banks used to look primarily at the property and the borrower's ability to repay the loan which should have come to 25 percent of his salary.

"We would check the guy but focused on the property.

"Today, however, we focus on the client in different ways."

The variables are income, stability, ability to repay and monthly expenses. And branches look at the borrower as an entire person in a much more detailed way.

"We're moving into risk assessment and following banking policy which previoiusly the building societies didn't do".

Steve Bird, marketing manager, Perm home loans.

Like all other mortgage lenders, Perm has a variety of options on offer ans they encourage borrowers to come in and discuss the options with their highly professional staff.

With branches all around the country, they point out that they are accessible to the public and would be happy to give advice and assistance to any would-ne homeowner.

Help at hand if you have a problem

(58)

STAR 14/2/92

A building contractor will issue a certificate at various stages.

Homeowners faced with high bond repayments in the economic recession have been encouraged to consult with their lending institution if their commitment becomes too onerous.

EP Building Society chief executive, Trevor Jennings, says the current spate of repossession in the property market has sparked enormous concern among lending institutions.

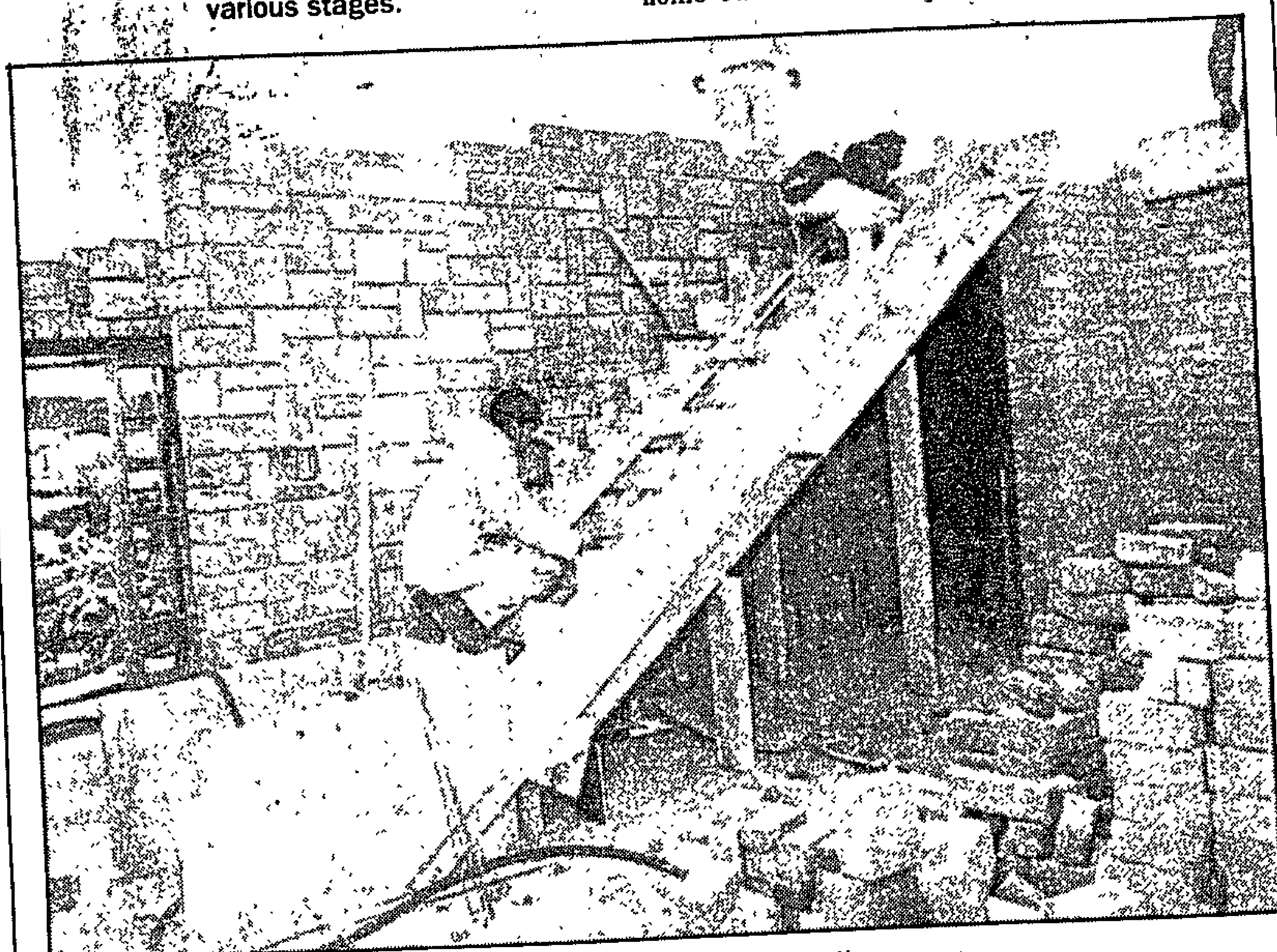
"It is neither in the interests of the institution nor the home owner to have the property repossessed," he says.

With prospects of a drop in the prime rate and economic recovery an economic guessing game, Mr Jennings urges home owners to act as quickly as possible if they are unable to meet their commitments.

"If the owner of a property finds himself in difficulty, he should visit his branch manager at his earliest convenience for advice on how to approach the problem.

"People need not feel ashamed of admitting they are having difficulty. We know the country is experiencing severe economic difficulties and we would rather clients moved quickly than leave it too late."

Arrangements to lessen the burden during hard times are possible, and homeowners in trouble should avail themselves to these opportunities before it is too late.

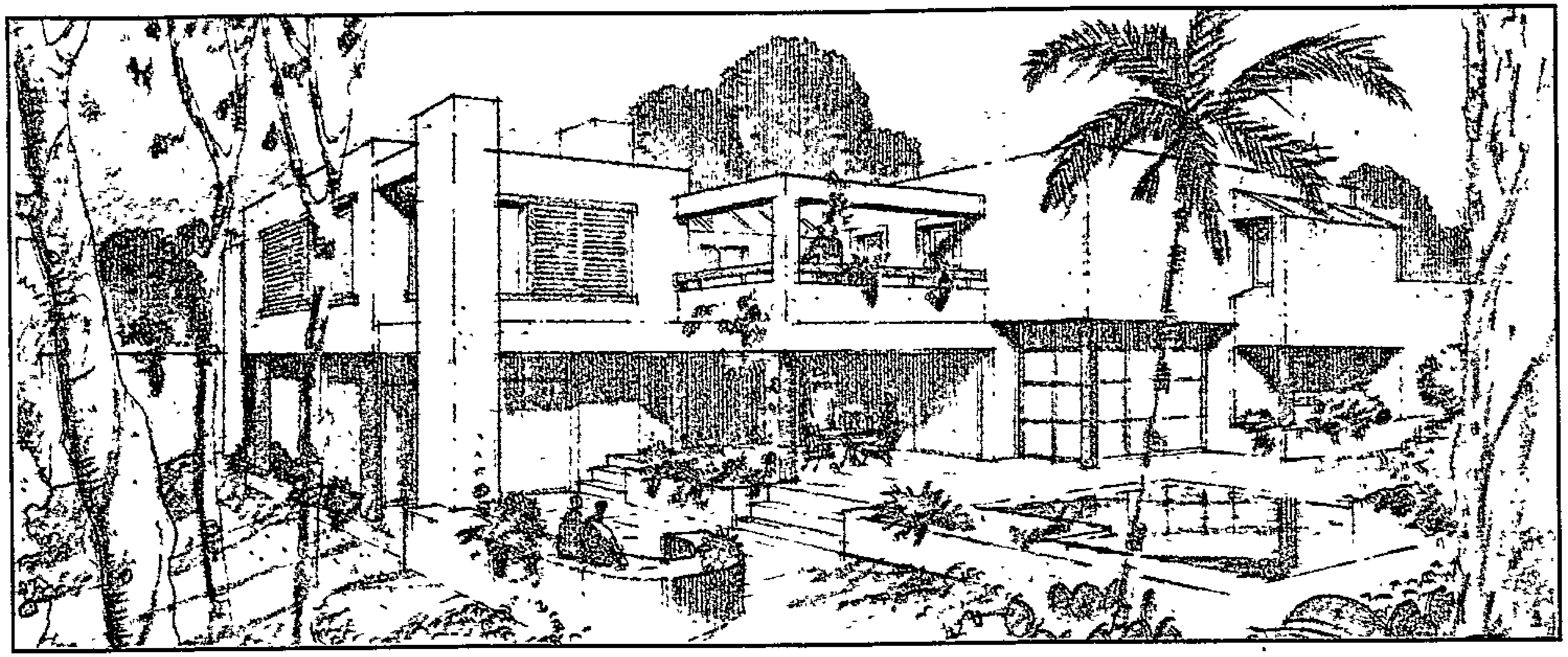


Building work in progress on a new house for the owner.

Hot competition for best package

STAR 12/2/92

(58)



The one percent drop in the bond rate from March 1 is a source of optimism to some and almost derisively dismissed by others.

Yet, for hard-pressed John Citizen, labouring under the burden of high taxation and rampant inflation, any relief is better than none.

In spite of the high cost of finance, or perhaps because of it, lending institutions are vying with one another to create the most attractive packages for different sectors of the market.

As one banker put it: "We have a six-week lead-in time for a new product."

Indeed, a survey of these institutions — the traditional building society is an endangered species — shows a wide spread of similar products, marketed, of course under different brandnames.

There has even been legal action over terms such as "access" putting the lie to the old saw of what's in a name?

It is, however, still prudent to shop around for the best deal and bankers are only too happy to tailor one for your particular needs.

But don't be misled. Strict vetting procedures are applied by all lenders, each with its own "points system".

And the man or woman who has handled his or her finances in a disciplined way and built up a creditable and creditworthy track record over the years is still perceived as the best risk.

Remember, too, that interest rates are subject to the law of the jungle and that, like the gold price, could go up or down.

Only residential market is 'healthy'

BDay 12/2/92 (58) (8220)

LINDA ENSOR

CAPE TOWN — The property market is in the doldrums, with only the residential sector showing signs of health, says the latest Rode's Report on the SA Property Market.

"Non-residential building contractors are in a state of panic as new contracts dwindle," editor Erwin Rode reports. He predicts a lean year for the sector, characterised as it is by overbuilding.

In contrast, there was strong demand for rented residential accommodation and strong house price growth in the lower priced suburbs. Rode found that flat rental growth in most cities had outstripped the inflation rate by a wide margin.

The recession had started to bite the office market, which was experiencing a rise in vacancies and a fall in rentals.

On the industrial front, Rode found that rentals were also dropping, though there had not been a significant increase in industrial vacancies, except in the Pretoria area.

"Current industrial rentals reflect the sluggish condition of the industrial sector. The average growth for industrial rentals is barely 3% for 1991. However, we expect a slightly better performance in 1992."

Rode forecasts an average 5% growth in industrial rentals this year based on 1 000m² units in the central Witwatersrand.

He notes that capitalisation rates had on average remained stationary during the last quarter in most cities and across all property categories, with the exception of non-prime offices.

A model of Sunninghill 77, an office park development north of Johannesburg, which will eventually include 400 000m² of retail, office and commercial space in an expansive park setting. Parkdev/Rand Consolidated Properties is the developer.

Absa looks at one-stop property buying centre

BDay 12/2/92

(58)

EDWARD WEST

ABSA is studying proposals for the development of a massive one-stop home buyers' complex in Midrand.

Absa corporate banking executive director Bob Aldworth said on Friday the concept, put to him three weeks ago by a property developer, was being researched. He would know in about three weeks whether the concept was feasible.

It involved the development of a centre housing banks and building societies, lawyers, estate agents and home fittings and materials retail outlets. A person wanting a house could visit the centre on a Sunday and buy a house the same day.

Anglo American Property Services (Ampros) estates development director Peter Gardiner said there were plans to establish the centre at the Waterfall Park office park adjacent to Ben Schoeman highway. He said up to 50 000 properties could be put on show at the complex.

Other banks are also taking steps to make the purchase of a house cheaper and easier. From March 1, nine banks not including those in the Absa stable will provide a computerised multilisting service at more than 1 000 estate agents across SA.

The new service — which will compete with Absa's — called Real Estate Multiple Listing Services, will be laid on by Comprehensive Property Services (CPS). It will also provide moving, referral, conveyancing and bond application services.

CPS manager Stefan Swanepoel said his company had studied the proposals for a one-stop property centre and decided that though the idea was good, it was premature for SA's property market.

Standard Bank's earnings up 20,1%

(58)

BDay 12/2/92

SHARON WOOD

SOARING bad debts failed to curtail the Standard Bank group's consistent profit growth and the group yesterday announced it had lifted earnings 20,1% in the year ended December.

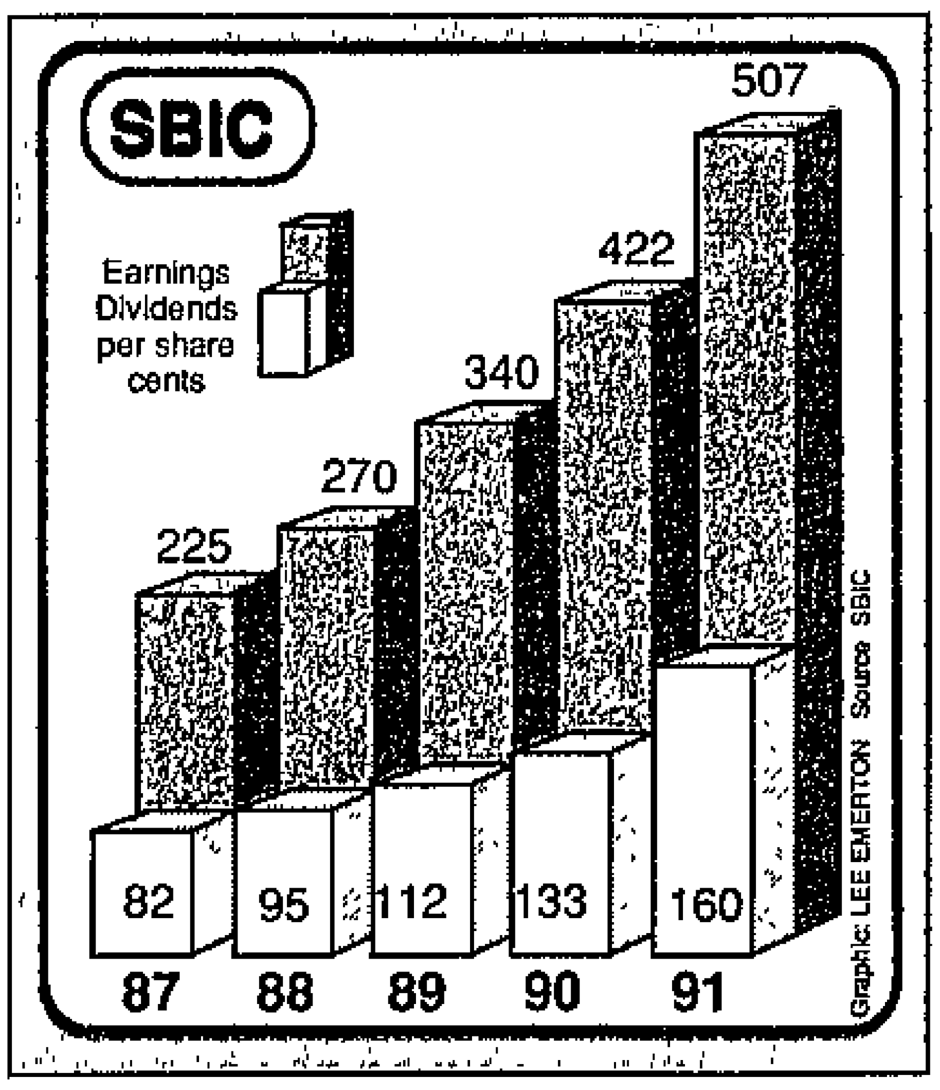
Attributable income climbed 23,6% to R510,7m from R413,2m in 1990 and earnings a share were 507c from 1989's 422c. Total assets grew by 10,7% to R50,4bn from R45,5bn in 1990.

The group is again budgeting for increased profit, in spite of what it describes as "the continuing absence of satisfactory lending opportunities".

In 1991 bad debts surged by 85,9% to R329,4m from R177,2m the previous year. The group made provision for R378,5m bad and doubtful debts during 1991, 76,2% up on the previous year's R214,8m.

Group MD Eddie Theron said at a media conference that the bad debts were organically related to the economic cycle, although the bad debts during the current recession differed markedly from those experienced in the 1985 recession.

"This time the big corporates are more soundly structured and there have been fewer major bad debts. The bulk of bad debts has come from the man-in-the-street, smaller corporates and farmers."



Seventy-five percent of the value of bad debt exposures had been less than R0,5bn.

"The group will continue to be actively involved in extending small to medium sized business loans because, although there are significant risks in that market, they yields good profits."

Theron said although the increase in assets was low it did not reflect the total loans and advances position which had in-

□ To Page 2

Standard Bank

BDay 12/2/92 (58)

□ From Page 1

creased by 16%. This was satisfactory in the light of the state of the economy.

The higher asset base had resulted mainly from a widening in interest rate margins and had gone some way towards meeting exceptionally high bad debts experienced in the banking sector. In a period of tight monetary policy and declining credit demand there was traditionally a wider interest rate margin, he said.

Theron said the group had maintained its market share in all areas and had gained share in the home loans market.

The home loans book now stood at R7,8bn compared with R6,5bn in 1990.

Dividend cover remained unchanged at 3,2 times and the group announced a final dividend of 160c, 20,3% higher than 1990's 133c. Shareholders were offered the choice of receiving their final dividend in cash or by way of additional shares.

Commenting on Absa's recent takeover of Bankorp, Theron said the development was inevitable and Standard Bank was not in pursuit of size. Management was happy with the critical mass of Standard Bank.

How homeowners can save a fortune

STAR 12/2/92

Homeowners could save themselves a fortune in the long run by continuing to pay the same (higher) instalments, rather than taking advantage of the lower repayments, according to Nedbank.

The bank points out that maintaining repayments at current levels is equivalent to a tax-free investment of 19 percent. A significant saving, indeed, for those who are constantly battling the tax man.

The bank points out that with most mortgage rates down by one percentage point to 19 percent, many homeowners must have worked out what the reduction in the bond rate would save them per month.

To many people the reduced monthly repayments might seem insignificant but by maintaining payments at the old level, the bondholder can actually save several hundred thousands of rands, Nedbank advises.

Drops

Take for example a home-owner with a bond of R100 000 repayable over 25 years. At an interest rate of 20 percent the monthly repayments are R1679. At the new rate the repayment drops to R1 598 per month, a saving of R81 per month.

Conventional home loans are structured so that the borrower repays mostly interest with only a tiny portion of the amount being applied to the reduction of the capital over the early years.

On a R100 000 loan, for example, after 15 years only R5 000 will have been paid off the capital. After 20 years the outstanding capital amount will be down by approximately 50 percent. It is only during the last five years that the capital amount is swiftly reduced. This is why it is so important to maintain bond repayments at the same level as they were before the rates were cut.

However, there is another choice. Nedbank has come up with another innovative idea, suggesting that the saving generated by a reduction in bond rates should be invested in a unit trust on a monthly basis.

Assuming unit trusts perform roughly in line with historical figures, this would result in a capital nest egg of about R22 000 after nine years. Over longer periods the average growth rates have been even higher. However, as the interest portion of unit trusts exceeding R2 000 is taxable, the after-tax return depends on the marginal tax level of the individual. A marginal tax rate of 30 percent would result in a return of 18,83 percent while a marginal tax rate of 40 percent would produce a return of 18,31 percent.

The minimum return on the unit trust fund required to ensure that the final investment value is equal to the outstanding loan balance upon expiry of the loan period, is 10 percent. However, this would entail a sharp deviation from the long-term growth performance of unit trusts and equity markets.

The recommendation then is that the monthly savings generated by lower interest rates be paid either into a unit trust for the remainder of the loan period or as further reduction to the loan.

Using the bond of R100 000 at an interest rate of 19 percent, the figures will look as follows:

- Conventional bond - monthly repayments: R1598.
- Unit trust link bond: Interest R1593.
- Unit trust contribution R75
- Capital reduction: Nil.

Assuming that a growth rate of 20 percent is achieved, the value of the unit trust investment would be R639 536 after 20 years. After repayments of the loan balance of R100 000 thé investor is left with R539 536.

If the borrower decided to sell his house after, say 18 years the value of the units would be sufficient to repay the loan in full and he would still be left with an investment of R56 143.

Nedbank suggests that homeowners link their home loan to an investment in unit trusts Clients will pay only the interest on their home loans and they invest the rest in unit trusts, and at the end of the loan period, the invested capital should have grown to a point where it can comfortably repay the capital borrowed and there should be a store of extra capital left over.

Nedbank has three home loan linked unit trust options on offer. It also suggests that one should invest the differential income in unit trusts or supplement an existing portfolio of unit trusts.

This way, a substantial return on the investment can be achieved - the money will grow beyond the inflation rate.

The bank believes that bond rates are only one factor that a borrower should consider. They maintain that service is the distinguishing factor in the home loans market because bond rates are much the same and so are the home loan products.

Because Nedbank regards clients as individuals who have different priorities, needs and wants from one another, where home loans are concerned they they say that individial needs must be taken into account.

Locality

Individuals or families choose homes that suit the way they live. They look for a locality and style that makes them feel at home and comfortable. A home loan should, therefore, be flexible enough to meet a variety of requirements and it should allow for changes in lifestyles, aspirations and economic circumstances of clients.

Here is a brief rundown of the options available from Nedbank when borrowers want to choose a home loan:

1 A negotiable repayment period up to 30 years.

2 Consideration of joint incomes where appropriate.

3 A negotiable period of grace of up to three months once a bond is granted, during which time no instalments need be paid.

4 Clients can elect to pay interest only for up to five years.

5 A Nedgrowth instalment can also be negotiated. This is linked to the UAL Unit Trust. At the end of the loan period, the invested capital should have grown to a point where it comforbably repays the capital borrowed and there should be somewhat spare capital after this is paid off.

There is also a Ned-Revolve action. When amounts larger than the instalment is paid into a home loan account, considerable sax savings are generated, and the client has the benefit of an advance of R2 500 plus per month.

Nedbank's interest rates, they point out, are market related and always competitive.

When it comes to transferring bonds from one bank to say Nedbank, Nedbank pays the legal registration costs, where the properties purchased require a loan of R80 000 or more.

All legal costs involved in cancelling a bond so that the bond can be transferred to Nedbank are carried by Nedbank including registration costs where the amount exceeds R80 000.

Where considering applying for or transferring a bond, Nedbank's advice is that the home loan market should be thoroughly investigated. There are various bond options available from the different financial institutions and because a home loan, more often than not, results in a long term relationship with a financial institution, a client must be satisfied that he gets the service and the products most suited to his needs.

Generally, few clients transfer bonds frequently. First, because most establish a relationship with their intitution which is not often easily replaced, and second, there is a great deal of work including paperwork, etc. involved which is time-consuming and it also requires a lot of effort especially on the part of the client.

Range of savings, readvancement facilities available on home loans

STAR 12/2/92 (58) (2)

Savings and readvancement facilities on home loans are not all the same says Duncan Reekie, GM, Standard Bank home loans division.

With Standard's advanced electronic communication network, he says these facilities can be processed within 24 hours

Take for example the bank's patented AccessBond This is a savings vehicle that enables you to deposit surplus moneys with ease The savings benefit is the reduction in your monthly interest commitment under the bond while the surplus moneys are in the account

When interest rates are high spare money can be put to good use via AccessBond. And interest on an AccessBond account is calculated on daily balance which means you receive the benefit of your surplus funds on the day they are deposited to your AccessBond account

Another aspect of AccessBond is its convenience You can access it via AutoBank, pay into it with ease and withdraw your surplus moneys in multiples of R1 000 a month via your AutoBank cheque, savings or MasterCard account after the normal clearance period of 10 days has elapsed.

Mr Reekie claims that no other home loan gives you this convenience and flexibility; no difficulty about depositing moneys and above all no restrictions on the withdrawal of those surplus funds

Withdrawals, however, can only be transferred to those of your accounts with the Standard Bank linked to your AutoBank card and cannot be made in cash.

Where collateral security for your bond is held by Standard Bank, the formal written consent of the guarantor would have to be obtained before additional credit or deposit facilities would be permitted.

If you have a home loan elsewhere a Standard Bank home loan advisor will tell you how to switch your loan to Standard with ease.

Standard also has an endowment linked option feature which offers competitive monthly bond instalments based on ruling home loan interest rates. The endowment option means a guaranteed bond repayment, opportunities for early bond settlement, tax-free growth potential and life cover

This way your bond will operate on an interest only basis. The difference between the interest and what would have been paid in respect of the capital reduction under a conventional bond is applied as a contribution to a Liberty Lifestyle endowment policy

Your contributions to the endowment option will escalate at 15 percent a year to protect the real value of your capital.

A fully paid home from a tax-free guaranteed investment, Liberty Life guarantees that the proceeds of the endowment policy will cover the capital portion of the bond over the arranged payment period

With Liberty Life's track record there is every likelihood there will be enough investment growth in the endowment policy to enable payment of the bond up to five years earlier.

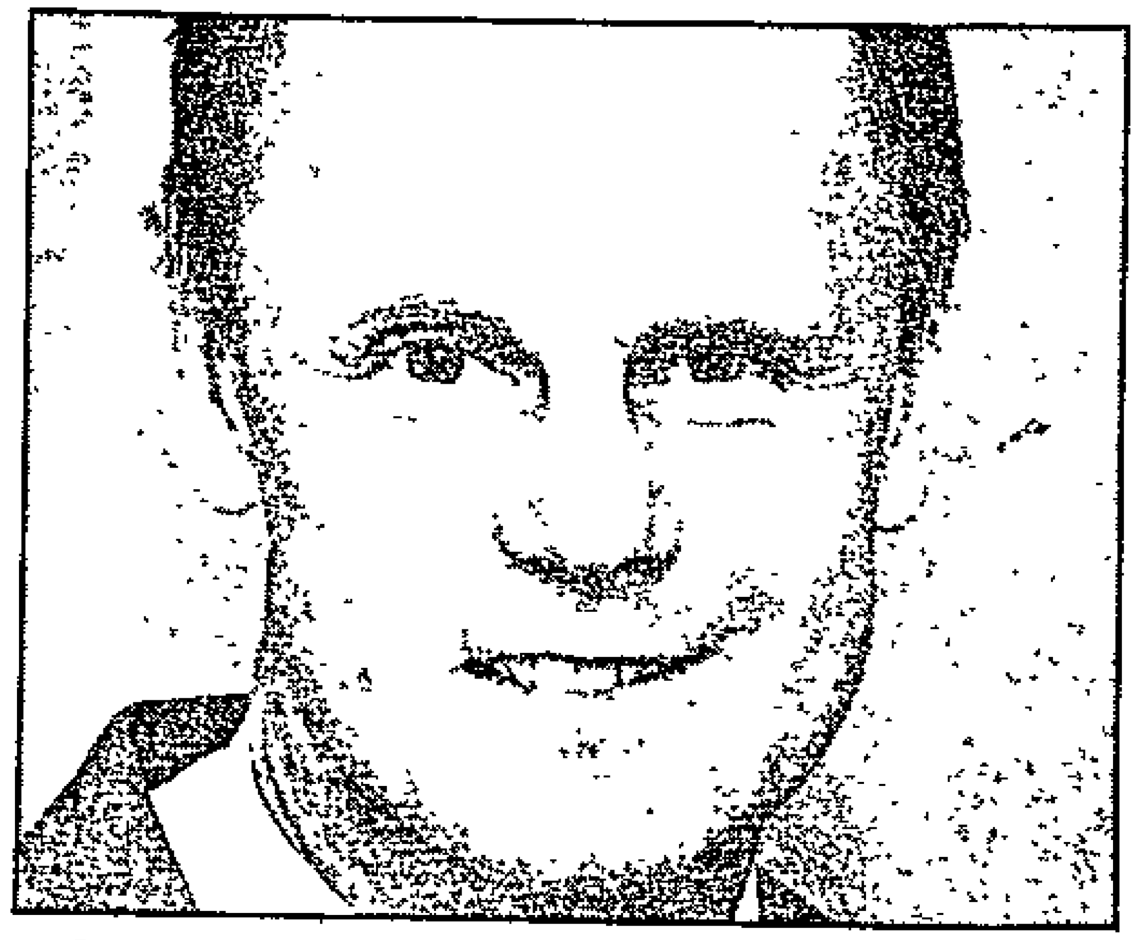
Should you prefer to continue paying into AccessBond with the endowment option for the normal bond period — 20 to 25 years — you could receive a large lump sum payment tax free as well.

Current legislation makes it necessary for the endowment policy to remain in force for a minimum period of 10 years for it to be tax-free.

Subject to medical proof of good health, cover for the bond will be included in the plan at no extra cost.

Ninety percent bonds of up to R150 000 are available to approved clients and instalments can be fixed for periods up to five years whereby a flexible repayment structure can be offered to help approved borrowers to temporarily cushion the impact of high interest rates.

Above all, Mr Reekie emphasises individual relationship banking, along with Standard's advanced electronic network, as the reasons for Standard's increasing share of the home loan market.

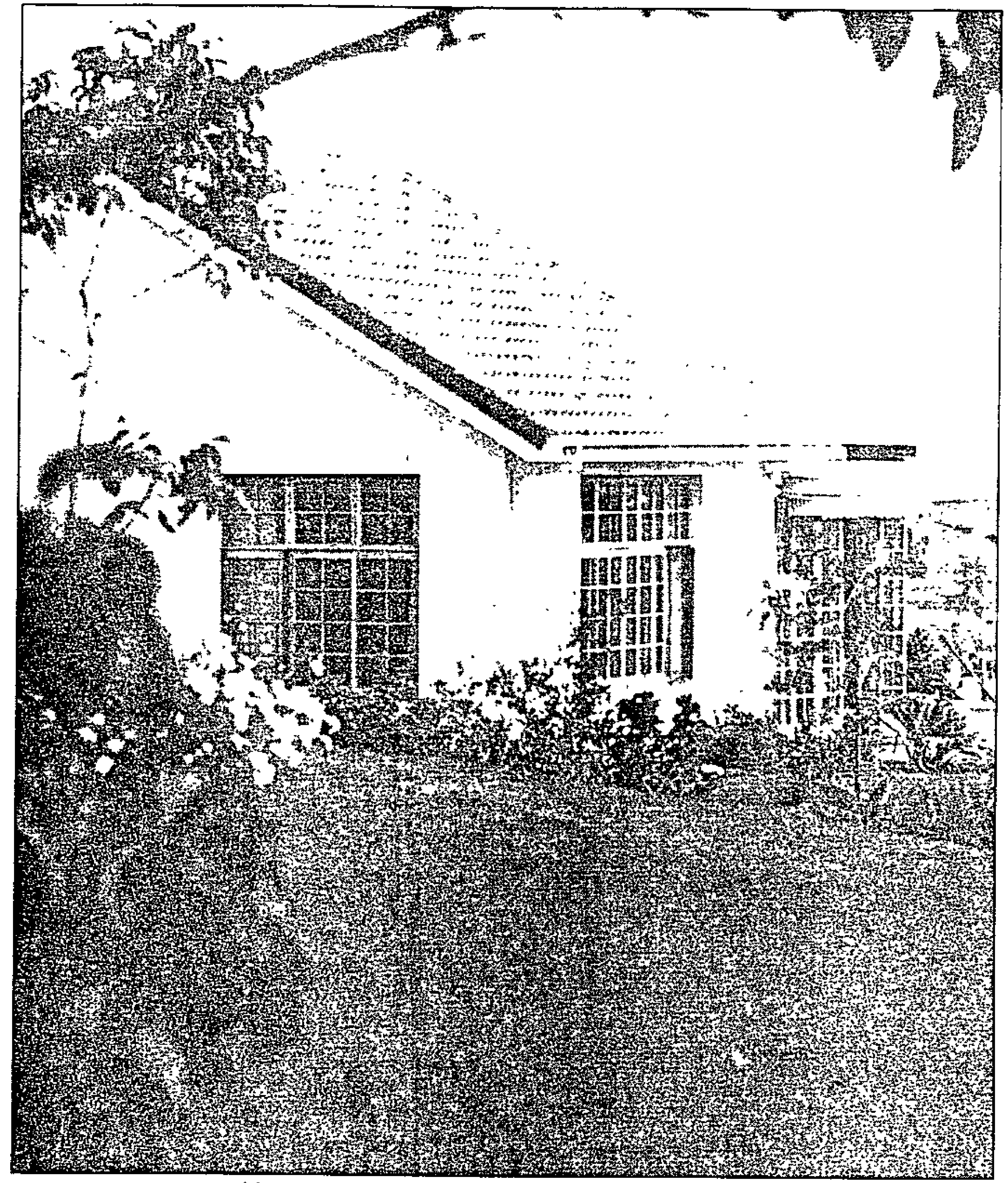


Standard Bank general manager Duncan Reekie.

WHAT HOME LOANS COST PER MONTH AT 19% PA

Amount of Loan	20 years R16,21/R1 000	25 years R15,98/R1 000	30 years R15,89/R1 000
R 50 000	R 810,50	R 799,00	R 794,50
R 70 000	R1 134,70	R1 118,60	R1 112,30
R 80 000	R1 296,80	R1 278,40	R1 271,20
R 90 000	R1 458,90	R1 438,20	R1 430,10
R100 000	R1 621,00	R1 598,00	R1 589,00
R125 000	R2 026,25	R1 997,50	R1 986,25
R150 000	R2 431,50	R2 397,00	R2 383,50
R175 000	R2 836,75	R2 796,50	R2 780,75
R200 000	R3 242,00	R3 196,00	R3 178,00
R225 000	R3 647,25	R3 595,50	R3 575,25
R250 000	R4 052,50	R3 995,00	R3 972,50

Source: FNB



A house with a view. For some this would be a the dream home

A winner for bond account holders

First National Bank's "cherry on the top" for its bond account holders is a R100 000 giveaway.

Anyone with a home loan, or with FNB approval for a home loan, qualifies for a monthly draw. All you need to do is complete a voucher which goes into a drum every month.

Unless you win the R100 000 first prize your voucher stays in the drum for 11 months.

If you have a R100 000 bond, for example, and you win the first pirze, your bond is wiped out. Should your bond be R50 000 you get R50 000 in cash as well as paying off your bond.

There are also second and third prizes of white goods such as a fridge, stove or washing machine worth R2 500.

And the estate agent who introduces the winning borrower wins R10 000.

Apart from prizes, FNB offers facilities such as its Up-Front-Bond which means you can search for a home safe in the knowledge that a bond up to an agreed amount has been approved in principle - and you get a certificate to prove it.

Once issued, the certificate is valid for eight weeks which gives you enough time to search for your ideal home. And, knowing that your bond has been approved in principle means that you may well be able to negotiate a better price.

Loans of up to R150 000 are available, based on 90 percent of the valuation of the property. Loans of more than R150 000 are calculated on 80 percent of the valuation.

And if you have ideas of your own to renovate or extend your new home, FNB will provide an extra 10 percent of the loan.

Rate cuts should give homeowners a chance to assess options

STAR 12/2/92

Plentiful finance for home loans — and more downward pressure on bond rates That's the immediate scenario for the home mortgage market in the wake of the recent bond rate cuts, says Camdon's Group MD Scott McRae

It's significant, he says that the banks apparently took the decision to cut rates unilaterally and did not wait for a lead from the Reserve Bank

"The Reserve Bank appears determined to keep other interest rates high and the commercial banks are therefore to be complimented on their independent action on the home loan front.

"Hopefully this is the start of more such action including the possibility of further bond rate cuts to stimulate the home loan market

"Further cuts would obviously be in the interests of the banks as well as their clients in that it would make home ownership more affordable for a broader base of the population

"At the same time it would stave off the threat of mass repossessions of homes such as has occurred in the UK

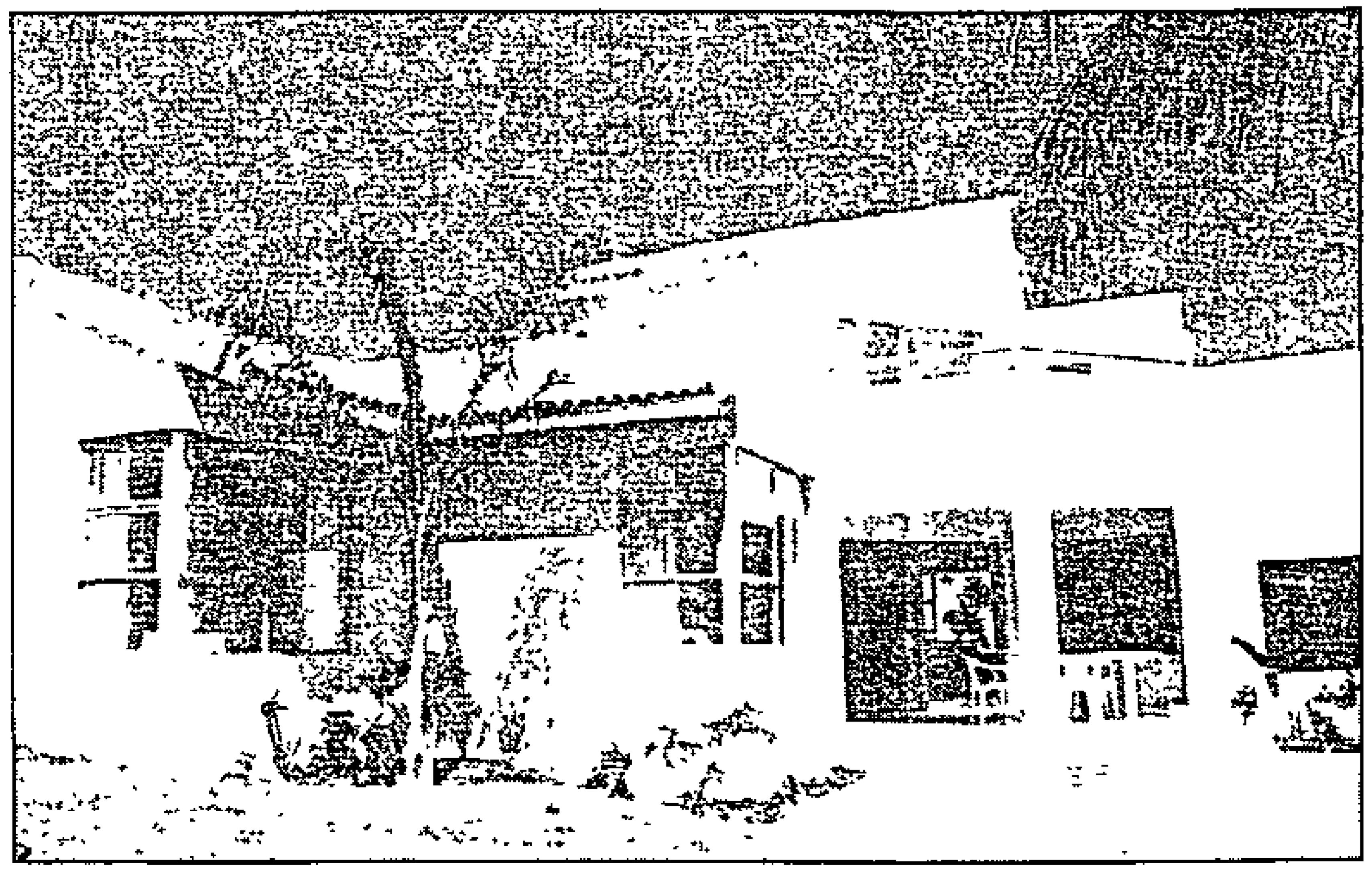
"The rate cuts, slight though they are, should give existing and potential home owners cause to re-assess their home financing options.

"The fact is that there are numerous bond products on the market today and borrowers should be aware that the traditional, straightforward bond is just one of many options available

Camdon's Group MD Scott McRae

"In fact, under the pressure of competition and to meet a growing need for individualised home financing packages, the banks including the former building societies, have become far more sophisticated in their home loans divisions — and certainly more flexible

"This bodes well for both existing and prospective home owners and they should shop around for the best possible arrangement to suit their particular needs



Sold by Camdon's: an upmarket cluster development as an alternative lifestyle.

"Innovations such as the AccessBond, 25-year bonds and endowment linked bonds have been added to the product portfolio of the various banks in recent years

"These operate on the basis of a flexible account which the borrower can top up or draw from on a monthly basis and which can be used as an inexpensive method of finance

"Endowment linked bonds allocate part of the bond payment towards a 10-year endowment, the payout of which covers the value of the outstanding bond, effectively cutting the bond repayment period in half to provide massive savings and still provide the borrower with a tax-free cash lump sum

"Moreover, the banks are far more flexible in their attitude to applicants and are happy to take into account the earnings of both partners when qualifying them for a loan

"On the other hand if homeowners are finding it difficult to meet bond repayments the banks are more than willing to make special arrangements on an individual basis to avoid having to repossess homes

"In short, homeowners should take time to re-assess their home loan position in terms of their current and future needs In doing so, they will find the banks more than willing to assist" says Mr McRae

One percent is a 'drop in the ocean', he says when compared with prevailing rates overseas but it should lead to even bigger cuts and will have a positive psychological effect on the property market

This, in turn, will lead to an upsurge in the market which will help to stimulate the economy in general.

Mr McRae says it is essential that at least another one or two percent be shaved off ruling bond rates within the next 12 months, bringing rates to 3 percent less than present levels

"The man in the street has had to carry an excessive bond rate for far too long a period

"Without significant cuts in bond rates the incidence of repossessions will increase alarmingly as it has done in the UK and the institutions will be left holding an excess of stock leading to a further fall in market values

"It is also essential for the stability of the country that during the transition to a new political dispensation, as many South Africans as possible can maintain a roof over their heads

"Moreover, a healthy property market is essential in terms of job creation and spin-off benefits throughout the economy '

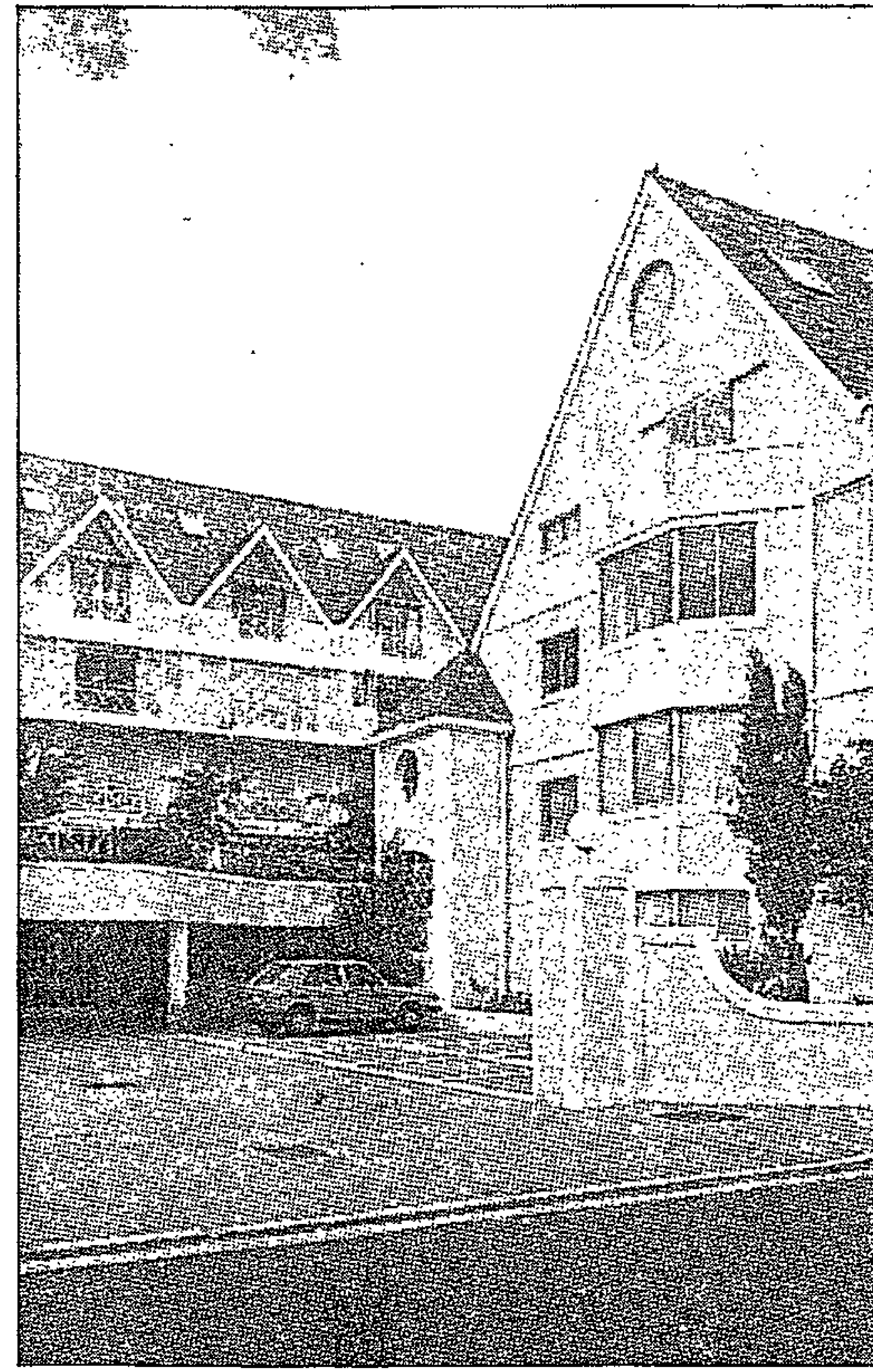
On a R120 000 bond being repaid over 20 years, a 3 percent cut in the bond rate would reduce monthly repayments by R280 a month he says (See table below)

Generally, says Mr McRae, the property market has held up better than could have been anticipated, in spite of poor business conditions and high interest rates

"There are now positive signs on the horizon. The value of building plans passed is increasing, rentals are hardening, and a shortage of property is building up.

"The foundations are therefore in place for an upsurge in the market although the days of property booms are over and I hesitate to suggest that such a boom is in the offing on the basis of a mere one percent cut in bond rates

Bond	Repayment Period	Rate of Interest	Monthly Payments
R120 000	20 years	20,75%	R2 109
R120 000	20 years	19,75%	R2 015
R120 000	20 years	18,75%	R1 921
R120 000	20 years	17,75%	R1 829
R120 000	20 years	16,75%	R1 737



It is prudent to shop around for the best deal and bankers are only too happy to tailor one for your particular needs Strict vetting procedures are applied by all lenders, whether they are buying an upmarket house such as this one, or something more modest.

Record bad debts fail to hold back SBIC

(58)

STAR 12/2/92

By Derek Tommey

The Standard Bank group (SBIC) was hit by record bad debts in the year to December. But despite this it was able to increase its taxed profits by 23,5 percent to R523 million.

Earnings a share on the enlarged share capital rose 20,1 percent from 422c to 507c a share.

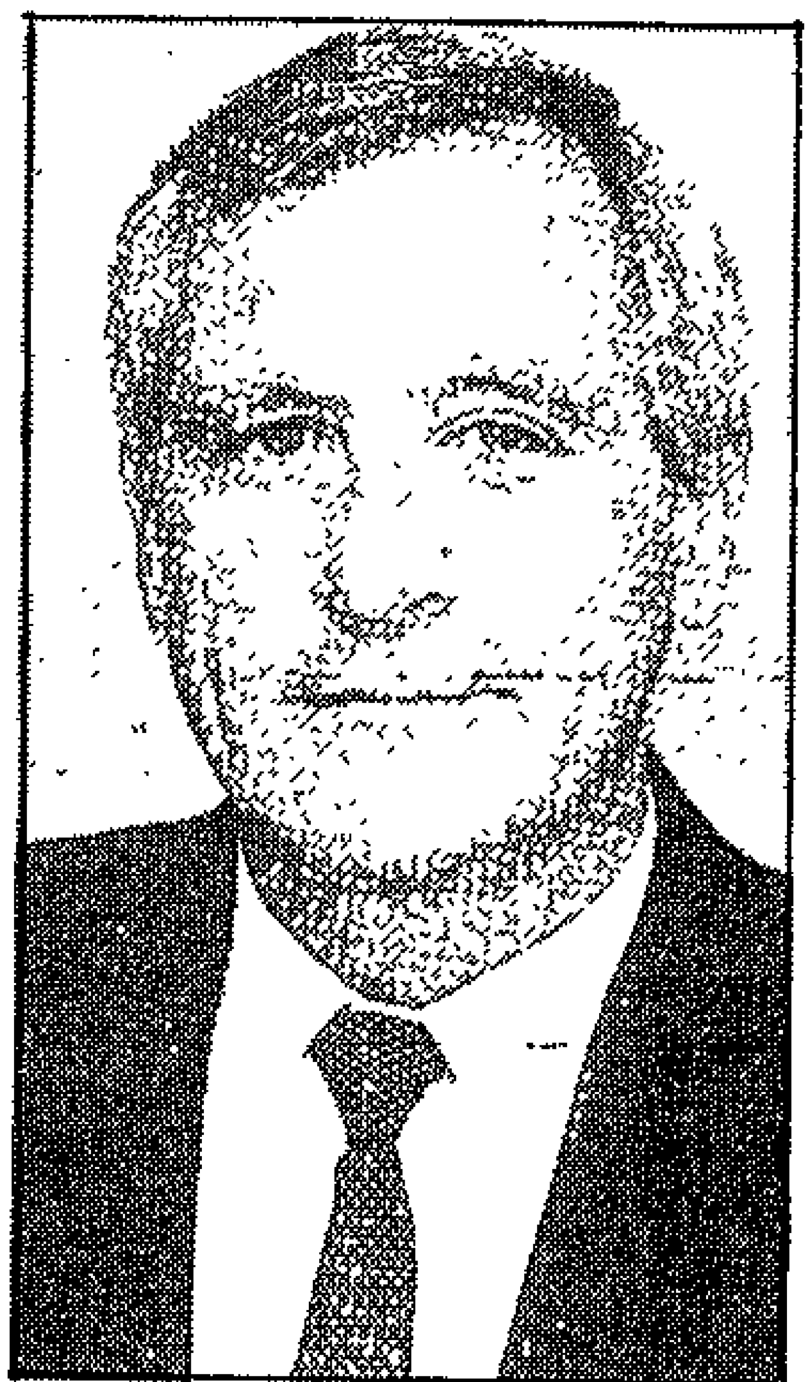
The final dividend has been raised to 116c, making a total payment of 160c for the year — a 20,3 percent increase on the 133c paid last year.

The group's newly appointed managing director, Eddie Theron, said large numbers of individuals and small businesses had been seriously affected by the recession and were having difficulty repaying their bank loans.

This had resulted in the bank having to provide a record R378,5 million to cover bad debts — an increase of 76 percent on the R214,8 million provided in 1990.

He said that 75 percent of the bank's bad debts by value were for amounts of less than R500 000.

This showed that it had been the small man who had been most affected. This was in sharp contrast to the position in the previous recession in 1985 and 1986.



Eddie Theron ... planning London operation

Then some big corporations were in trouble.

The bank had taken a good look at its bad debts. Its book was clean and he did not see any bad debt problems looming this year.

The bank was planning to start operations in London. It had acquired 60 percent of the shares of Ludgate Holdings, which it did not hold, and had changed its name to Standard London. The company had applied for a British banking licence.

In the light of the political and social uncertainties, the bank did not expect more than a modest improvement in the economy this year. But with liquidity expected to remain easy, it was budgeting for increased earnings.

Mr Theron said the widening in the interest margin in the first half of the financial year had continued in the second half. This went some way towards meeting the exceptionally high bad debts and the financial services levy.

The widening margin was the result of the recession leading to a build-up in liquidity.

Income from funds rose 9,2 percent to R7,6 billion, while interest expenses rose three percent to R5,6 billion. This increased net interest income by 31,1 pecrent to R2,0 billion.

Mr Theron said that though the group's total assets rose only 10,7 percent to R50,4 billion, it had been able to increase its advances by more than 15 percent to R42 billion as a result of the better management of cash holdings.

Other operating income rose 21 percent to R1,28 billion and total income rose 27,0 percent to R3,3 billion.

Operating expenses were 26,4 percent at R2,52 billion, reflecting a 18,3 percent rise in staff costs to R1,15 billion, a 23 percent rise in "other" operating expenses to R993,2 million and the 76,2 percent rise in bad debt provisions.

Mr Theron said the increase in the staff costs reflected not only normal pay rises but a swing to employing more higher-paid specialists.

Operating profit before tax was 28,9 percent higher at R794,4 million and taxed profit 28,6 percent up at R476,8 million.

The share of profits of associated companies dropped 12,7 percent to R46,2 million from the R52,9 million in 1990 when this figure was inflated by a special R16,1 million dividend from Liberty Life.

Net income was R523 million (R423,6 million) and attributable income ws R510,7 million (R413,2 million).

Extraordinary items included the provision of R30 million to the Joint Education Trust.

The return on shareholders funds was 19,35 percent (18,99 percent) and the return on year-end assets was an extremely high 1,04 percent (0,93 percent).

The net asset value of Stanbic shares at book value was R26,09 and R38,47 after including the Liberty Life investment at market value.

New group will offer variety of pack

STAR 12/2/92

(58)

The recently announced acquisition by Amalgamated Banks of South Africa (Absa) of the Bankorp group, to form the largest banking group in South Africa, will enable its Allied, United, Volkskas and later Trust Bank retail banking divisions to offer a wide variety of attractive financial packages to existing and aspiring home owners.

So says ABSA group executive Mike de Blanche. He adds that home mortgage finance will continue to form an integral part of these packages.

"The Bankorp acquisition will enable us to achieve an even better balance in our retail banking activities. This will improve our competitive position in this market and the man in the street will benefit from the heightened competition for his or her business."

He claims ABSA is the leader in home mortgage lending, approaching a 40 percent share of the market, a position which de Blanche says the group intends to enhance still further in due course.

"We've learned a lot in more than 100 years of home financing. One of the most important lessons has been to evaluate property values carefully and to lend prudently, thereby protecting the interests of our clients and our group."

ABSA's mortgage lending is chanelled via its three retail banking divisions - Allied, United and Volkskas.

All three divisions of ABSA reduced their bond rates by one percent recently and all offer a range of home mortgage packages to suit various client categories.

Allied offers its Tax Efficient Option to its borrowers, which allows them to earn tax-free bond rate interest on any advance payments made on their bond accounts so long as the bond account is in debit. These surplus funds can be automatically and immediately drawn upon in minimum amounts of R500 until they have been depleted.

Should an Allied borrower sell his property and choose the Allied to finance his new property, the Allied will pay half the registration costs of the new bond and forego the valuation fees.

Furthermore, should the buyer of the old property also choose the Allied to finance the deal, the Allied will also pay half his bond's registration costs.

The Allied recently launched its Capital A and Strive financial packages to cheque account holders, both of which offer reductions in the prevailing bond rates.

Allied clients who qualify for the Capital A package must earn minimum gross cash income of R80 000 a year and have a minimum net worth of R150 000. Among the many benefits for clients who use this package is a 0,5 percent reduction in their bond rate.

The Allied's Strive package, which is available to clients who have a minimum net worth of R100 000 and who earn a gross cash income of R50 000 a year, or professional graduates who have the potential to earn that income in the next two years, offers them a 0,25 percent reduction in the prevailing bond rate.

The United offers a similar facility to the Allied's Tax Efficient Option. All amounts paid in advance effectively earn tax-free interest at the prevailing bond rate as long as there is a debit balance in the account. However, the full difference between the balance and the total loan granted is available immediately to the borrower, provided that the account is in good order.

A minimum amount of R1 000 can be withdrawn at any time from such an account.

The United has another product known as Investorbond. This is a mortgage bond linked to an endowment assurance policy underwritten by Commercial Union. Instead of each monthly instalment reducing a portion of the capital of the mortgage loan, a smaller amount pays only the interest on the bond, while an additional amount pays the monthly premium on the endowment.

On maturity, the endowment policy is guaranteed to settle the loan in full and, based on conservative projections, also produce a tax-free lump sum payout. Life cover is built into the policy to cover the full amount of the bond and disability can be included as an optional extra.

Investorbond is an attractive facility because the endowment premiums begin at a low level and increase annually in step with salary adjustments and inflation. This makes the monthly instalments more affordable and there are significant discounts for women and non-smokers. The bonds can also be repaid earlier but the endowment policy has to run for a minimum of 10 years to qualify for the tax concessions.

Like the Allied, the United also offers reduced bond rates to higher net worth cheque account clients. These are known as its Unique and Performer packages.

The Unique package offers a 0,5 percent reduction to clients who must have a gross cash income of more than R70 000 a year and a minimum net worth of R150 000. The Performer package offers a 0,2 percent discount to clients who earn a minimum gross cash income of R50 000 a year and have a net worth of not less than R100 000.

Like the traditional commercial banks, Volkskas only entered the home mortgage market in the latter 1980s. However, the Bank has steadily increased its mortgage book and now, as a division of ABSA, it is approaching the home loan market with even greater vigour.

Volkskas offers two financial packages to it's higher net worth cheque account clients. These packages include bond rate reductions in their benefits.

Its top package Cum Laude 1, which offers a 0,5 percent reduction to clients who earn a gross cash income in excess of R100 000 a year and who have a minimum net worth of R150 000.

Its Cum Laude 2 package, offers a 0,25 percent lower bond rate to clients who earn a minimum gross cash income of R60 000 a year and who have a minimum net worth of R90 000.

Volkskas also markets a facility similar to the Allied's Tax Efficient Option called Maxibond. The client benefits are the

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Direct marketing led to 18pc growth in loans

STAR 12/12/92 (58)

Johan Myburgh, MD, Pretoria-based Saambou, claims an annual 18 percent growth in home loans for his institution mainly through direct marketing. He says other Saambou products are advertised but not home loans.

Saambou's strategy, he adds, is to concentrate on the salary-earner. "We believe the traditional chequing account if something of the past for the salary-earner and with developments in technology we're moving into a paperless operation.

Its bond operation is based on the median income group, thus suitable for the salary earner but is linked to lifestyle. Research has divided suburbs into lifestyle such as English-speaking executive and the rural areas accordingly

Saambou's main customers probably have a joint income of R4 000 to R5 000 net.

Stringent checking ensures that Saambou clients manage their financial affairs responsibly.

"We at Saambou want to survive in the present environment. We have four enormous institutions to compete against. To survive we have to concentrate on a segment or niche and provide a service that's not attractive to the bigger institutions which have corporate and high worth individual business and the volumes on transactions are higher."

Johan Myburgh, Saambou MD.

Free banking is just one of the benefits

58

STAR 12/2/92

NBS Bank which has been in the mortgage bond field in Natal for 110 years and nationally since 1935, focuses on home loans.

If you're an NBS borrower, regardless of category, you qualify for free banking. This entails a charge-free account on your plastic debit card and on savings accounts, apart from a 20c government levy for each transaction.

NBS was the first to introduce cheque issuing machines from ATMs at night. Its electronic banking halls are open 24 hours a day.

It also offers a loan advisory service by appointment. A consultant will help you to work out what you can comfortably afford to spend.

With the NBS Accelerator Loan you can accelerate repayments and if you link this to your cash card you can borrow back as you please.

Recently NBS introduced a cash card linked to your home loan. If you have a R100 000 bond your cash card can be linked to your loan and you can transfer the R10 000, or a portion of it, to your cash card and use the cash as you see fit. There is no catch and no formal application is needed.

PROPERTY

SA estate agents to join world body

B|Day 12|2|92

58

Business Day Reporter

ESTATE agents in SA have been invited to join an international federation representing their profession.

The International Real Estate Federation (FIABCI) decided at a recent meeting of its board in Sao Paulo, Brazil, to invite an application by the Institute of Estate Agents of SA (IEASA) for "principal membership" of the international body.

FIABCI deputy world president-elect David Blumberg said approval of the application by a board meeting during the federation's world congress in Montreux, Switzerland, in May would be a formality.

Blumberg is a former South African living in Israel and has worked for many years to get SA's membership accepted.

"This is a tremendous opportunity for South Africans who are now, after years of sanctions, coming back into the international community," he says.

"There is a great deal of business to be done out there, and FIABCI provides access to it through its sub-committees, conventions and membership list."

Trevor Downing, president of the IEASA, says FIABCI is a federation of professional real estate associations, represented in 48 countries. In addition to access to international business, the federation provides real estate agents with an effective means of communication to enable them to share their knowledge and experience.

Downing says the IEASA will now be responsible for the formation of an SA chapter of FIABCI and its administration.

Other associations in the building industry or individuals wishing to join the organisation would, in the case of estate agents, have to be members of the IEASA, or, in the case of other professions, members of their professional association.

"We are proud to be associated with an organisation which has as its members many of the foremost property and related companies in the world, representing the widest range of disciplines — from construction, engineering and development companies to architects, valuers, town planners, lawyers and brokers."

FIABCI world president Alan Hood of Britain and Blumberg will attend the IEASA annual convention at Sun City in August.

Hood has also expressed interest in meeting cabinet ministers and others involved in the housing industry.

Residential market 'to recover slowly'

CAPE TOWN — The residential property market would remain under pressure this year and was not expected to "come to life" until the second half of 1993, said Boland Bank group economist Louis Fourie in the bank's latest Economic Review released yesterday.

"The building industry is nevertheless showing considerably more resistance to the downward trend in the economy than during the previous slump," he said. BDay 12/2/92

"Traditionally the property market takes between 12 and 18 months to respond to an upswing, which means the market will only begin to 'come to life' by mid-1993."

He said house prices had for the eighth consecutive year failed to keep pace with inflation. (58)

A house sold for R70 000 in 1983 was currently selling for about R170 000. "Inflation-linked growth in house prices would have meant that the same house should have been selling for approximately R240 000." — Sapa.

Housing prospects still gloomy

58 Sowetan 13/2/92

BLACK builders are pessimistic that the reduction of bond rates will help alleviate the housing crisis.

By JOSHUA RABOROKO

The National African Federated Builders Industry and the African Builders Association say the building sector is not expected to show much life before mid-1992.

They predict that black contractors would continue to experience an economic downturn resulting in loss of jobs for many employees.

Nafbi's general manager, Mr Solly Moutloana, said financial institutions were still reluctant to give loans to first-time home buyers, despite the reduction by one percent on bond rates.

He said that the lowering of interest rates had had very little effect on the building industry as a whole.

Black builders were also experiencing difficulties in obtaining loans to build homes as a result of bureaucracy at these institutions.

Aba's president, Mr Joas Mogale, said yesterday the reduction of mortgage bonds rates would not have a serious impact on blacks - the majority of whom were still unemployed.

Banks and building societies have repossessed many black homes in the wake of the growing recession, boycott of bond repayments, unrest and violence.

Black builders had also suffered because of lack of finance and it seemed that this trend would continue unless "something was done urgently."

Both organisations said they would embark on a campaign to educate and train their members so that they would be able to create jobs and wealth.

Talk of low-interest Bank loan to Bankorp

SHARON WOOD

SPECULATION in financial circles that Bankorp had received a R1bn loan at 1% interest from the Reserve Bank remains unchallenged by the Bank, Bankorp and its new parent Absa. B/Day 13/2/92

The rumours have been circulating since the takeover of Bankorp by Absa at the end of January and were published in Finance Week yesterday.

Deputy Reserve Bank Governor Chris de Swardt told Business Day on Monday that he had been put in a very difficult position, but he could not break the confidentiality between the Bank and its clients.

The Reserve Bank had the responsibility to act as a lender of last resort to the banking system and it regularly provided loans to individual banking institutions.

These were normally overnight short-term loans but there was no fixed arrangement regarding the period of loans.

He would not comment on whether the Reserve Bank had provided finance to Bankorp before the merger and whether this would continue. A Bankorp spokesman refused to comment.

(58)

Provident, pension funds key to crisis

Sowetan 13/2/92.

(58)

A SOLUTION to South Africa's massive housing problem is to unlock money tied up in pension and provident funds and to make it available to members in the low-income levels.

By JOSHUA RABOROKO

The initiative has been undertaken by Old Mutual and the Urban Foundation after consultation with many parties, including Government officials, employers and labour representatives.

Major insurance companies Sanlam and Metropolitan Liberty Life have indicated they will study the implications of the scheme.

In a booklet, the Old Mutual and UF say the interest shown in these initiatives is largely related to the positive benefits that their success will have on the future of South Africa.

"While the act of building houses creates jobs, housing is seen to be a key ingredient to long-term social stability," the parties say.

Initiative

The initiative has been designed for people who:

- Are in active employment and members of a pension fund or provident Fund;
- Do not own any other properties; and
- Have accumulated suitable reserve in either the pension or provident funds.

It allows them to buy a home costing R45 000 or less (including the land) which will be registered in the member's name.

Finance for the home is obtained through normal bond financing institutions (deposit-taking institutions and mutual building societies); the State's first-time buyer's subsidy and other subsidies and loans against money accumulated in the member's pension or provident fund.

The feasibility of the initiative has been secured by bond repayments and loans are at acceptable levels; money borrowed from the fund is repaid by retirement; interest on money borrowed from the fund is at market rates and there is no risk to the fund in the case of default

SOWETAN
Building the Nation

Housing market will remain down

58

Sowetan 13/2/92

THE residential property market in South Africa will remain under pressure this year and is not expected to "come to life" until the second half of 1993.

This is the opinion expressed by Boland Bank's Group economist Mr Louis Fourie in the bank's latest Economic Review.

Trend

"The building industry is nevertheless showing considerably more resistance to the downward trend in the economy than during the previous slump," Fourie said.

It was clear the property market was awaiting an increase in the general activity level of the SA economy.

Upswing

"Traditionally the property market takes between 12 to 18 months to respond to an upswing, which means that the market will only begin to 'come to life' by mid-1993."

He said house prices had for the eighth consecutive year failed to keep pace with the inflation rate.

A house sold for R70 000 in 1983 was currently selling for about R170 000. "Inflation-linked growth in house prices would have meant that the same house should have been selling for approximately R240 000."

Inflation

Fourie pointed out, however, that there are certain residential areas, for instance in the Western Cape and in Durban-Pinetown, where house prices have beaten the inflation rate. - *Sapa.*

Use higher bond rate to save yourself a fortune

Sowetan Reporter (58)

HOMEOWNERS can save themselves a fortune in the long run by continuing to pay the same (higher) instalments, rather than taking advantage of the lower repayments, according to Nedbank.

The bank points out that maintaining repayments at current levels is equivalent to a tax-free investment of 19 percent. A significant saving, indeed, for those who are constantly battling the tax man.

The bank points out that with most mortgage rates down by one percent point to 19 percent, many homeowners must have worked out what the reduction in the bond rate would save them a month.

To many people the reduced monthly repayments might seem insignificant, but by maintaining payments at the old level, the bondholder can actually save several hundred thousands of rands, the bank advises. Sowetan 13/2/92

Take, for example, a home-owner with a bond of R100 000 repayable over 25 years.

At an interest rate of 20 percent the monthly repayments are R1 679. At the new rate the repayments drops to R1 598 a month, a saving of R81 a month.

Conventional home loans are structured so that the borrower repays mostly interest with only tiny portion of the amount being applied to the reduction of the capital over the early years.

On a R100 000 loan, for example, after 15 years only R5 000 will have been paid off the capital. After 20 years the outstanding capital amount will be down by about 50 percent.

It is only during the last five years that the capital amount is swiftly reduced. This is why it is so important to maintain the bond repayments at the same level as they were before the rates were cut.

However, there is another choice. Nedbank has come up with another innovative idea, suggesting that the saving generated by a reduction in bond rates should be invested in unit trust on a monthly basis.

Assuming unit trusts perform roughly in line with historical figures, this would result in a capital nest-egg of about R22 000 after nine years.

Using the bond of R100 000 at an interest rate of 19 percent, the figures will look as follows;

Conventional bond - monthly repayments; R1 593.

Unit trust link bond; interest R1 593;

Unit trust contribution; R75 and;

Capital reduction: Nil.

Court extends Masterbond's curatorship

B Day 13/2/92.

LINDA ENSOR

CAPE TOWN — The intervention of Masterbond creditors saw the application for a final curatorship order being quashed in the Cape Town Supreme Court yesterday in favour of an extension of the provisional curatorship until August 12.

The court decided that the liquidation of Masterbond's mostly incomplete projects would result in investors receiving a poor return and would not be in their interests. The extension of the provisional curatorship order would place the court in a better position to make a final decision.

The intervening creditor, Donald McKenzie — acting on behalf of investors — said in an affidavit the curators had been incompetent in not fully carrying out the court's orders.

At a news briefing after the hearing, Japie Jacobs, special advisor to Finance Minister Barend du Plessis, said the Cape Attorney-General was evaluating information to determine whether any transgressions or offences had been committed in the management of Masterbond's affairs.

He said steps would be taken to propose legislative changes to limit the possibility of another Masterbond-type affair.

Curator Arnold Galombik said there was no doubt Masterbond investors would ultimately suffer losses.

The provisional curators were ordered to submit an interim report to the court by May 31 to enable investors to assess progress made in the five major Masterbond projects — Club Mykonos, Fancourt, Silverhurst, Phinda and Marina Martinique — in which R339m is tied up.

The provisional liquidations of six companies in the group were extended until February 26.

58

On each of the five major projects the curators reported that:

- ☐ A proposal which could lead to the completion of Club Mykonos development was under investigation;
- ☐ An agreement had been entered into with Group Five for the completion of the Fancourt development;
- ☐ The application for the liquidation of Marina Martinique had been postponed until April 30 so an alternative source of finance could be found;
- ☐ An agreement was under negotiation to extend the loans for Phinda on the basis that interest could be paid at a reduced rate and the shortfall capitalised;
- ☐ No interest was being paid on Silverhurst. Capital repayments would be made as transfers proceeded.

● See Page 6

Majority of Masterbond investors still in the dark

B/Day 13/2/92 (59)

CAPE TOWN — Little light was shed by the Masterbond provisional curators' report submitted to the Cape Town Supreme Court yesterday on the prospects of the majority of the 20 000 Masterbond investors receiving a repayment of the R595m they invested in the collapsed empire.

While the full capital amount and most of the interest on the R26,9m, solvent money market business was paid out to 5 893 investors on January 23, the bulk of Masterbond investors will be no clearer today on the ultimate fate of their investments than they were yesterday.

The curators — Willem Wilken, Arnold Galombik and Jozua Malherbe — recommended against liquidation of any of the Masterbond companies and said final curatorship would be in the best interests of investors.

But they said in their report that discussing the viability or problems of specific development projects would result in the certain failure of the projects as end-purchasers or users would lose confidence in them.

About 70% of all the bonds — the 53 participation bond investments worth R70,8m made by 2 451 investors and the 54 debenture bonds of R400,5m involving 10 026 investors — were made in Club Mykonos, Fancourt, Marina Martinique, Phinda and Silverhurst, where development is still in progress. The curators investigated the viability of these schemes and said their immediate liquidation would prejudice investors.

Recovery

The curators said to call up a a bond too early or reach a premature settlement might result in purchasers buying the scheme at too low a price. However, if the developer were allowed to complete the project, there was a fair chance of full recovery by the investors.

The report said in certain cases the curators were negotiating with debtors to give investors in these projects the option of being paid a reduced amount immediately rather than to wait indefinitely for repayment in full.

Since their appointment in October last year, the curators have spent much of their time reconciling the investors of the short-term bonds, obtaining legal advice and determining the extent and nature of the group's investments. The Masterbond group consisted of 81 companies utilising 85 different banking accounts and had a direct and indirect interest in about 50 projects.

The curators said the payment of interest to 1 484 participation bond investors for October 1991 would be made as soon as it had been reconciled and for January as soon as it had been received. A total of 182 investors had received R3m for amounts received by Masterbond Participation Bond Trust Nominees and Masterbond Trust Investment Nominees, but not yet placed in any of the schemes. Other small amounts have been paid out.

The curators attributed their lack of communication with investors to the fact that two months prior to their appointment, records had not been properly kept and it had not been possible to identify all investments.

"We found that at the time of liquidation of Masterbond Participation Bond Trust Managers (MPBTM) prior to it being placed under curatorship, allocations to individual investors in participation bonds to the value of R16,3m and debenture bonds to the value of R139m had not been made. This despite the fact that the funds had

LINDA ENSOR

been paid out to borrowers. The practice was that allocations would be made *ex post facto* in batches to various bonds as required."

The curators have decided to deal with these investments as a whole by making pro rata allocations to all bonds where allocations have not been made or not fully made. This would ensure that investors participated in all such bonds and were not unfairly allocated.

The curators noted that each participation bond in MTPBM would have to be separately dealt with, and that the fortunes of each investor would depend on the security offered by the bond in which he was allocated.

Legal counsel had advised the curators that they were not able to pool all debentures and bonds and pay out debenture investors pro rata. Each debenture holder had to be treated separately.

The curators have decided that the investors in the 17 property syndications will be treated separately from other investors, but did not indicate in what manner. A total of 2 403 investors invested R96,9m in the property participations.

The curators found that Masterbond's short term debenture bond business did not comply with the Companies Act in all respects. The business operated on the basis of investments being lent to debtor companies and secured by mortgage bonds.

However, the curators were advised that the formal deficiencies do not invalidate the debenture certificates and the debtor companies were, notwithstanding the irregularities, indebted to the debenture holders.

Finanzhaus and Spectravest, used to finance end-buyers in Masterbond projects, were found to be viable companies.

While Mr Justice P H Tebbutt praised the curators in court yesterday for protecting the interests of investors, for those with money tied up in the group it is likely to be a long wait.

Insurance growth 'may be curbed'

BDay 14/2/92 LINDA ENSOR (58)

CAPE TOWN — A range of measures likely to be introduced by a new government would ensure that the performance of the life assurance and pension fund industry over the past 10 years was not be repeated, University of Stellenbosch Business School professor Attie de Vries said yesterday.

Speaking at Sanlam's national broker convention in Somerset West, De Vries said it was possible that prescribed investments would be reinstated at a rate lower than the market growth. This would affect profit growth.

Other dangers facing the financial sector were nationalisation which De Vries considered unlikely; the imposition of a capital gains tax; a sharp increase in the tax rate about which there could be no doubt; continuing low growth and high inflation; and the possible deterioration of the economic and financial infrastructure.

De Vries said the impoverishment of high income earners would not only continue, but accelerate. "Existing markets will therefore grow more slowly and this must be taken into account in any strategic planning. However, we must take note of the growth of a gigantic new market."

FNB looking at UK subsidiary option

B/Day 11/2/92 (58)

SHARON WOOD

FIRST National Bank was still determining the business case for opening a UK subsidiary and its establishment would depend on whether it would generate the right returns, senior GM and chief financial officer Vivian Barlett said yesterday.

The subsidiary was one of the options FNB would consider capitalising with the proceeds of a R550m rights offer. The bank had also not made a decision on whether the Swiss financing company would become an FNB subsidiary.

If the bank decided not to expand its overseas interests it would use the money for local operations.

The rights issue would raise FNB's capital adequacy ratio from its present 8% to 10%, including second tier debentures.

FNB would have been under pressure if it had remained at the former capital to asset ratio of 8% because inflation and growth in assets would have had a debilitating effect on the capital/asset ratio. All banks were required to achieve 8% capital adequacy by 1995 in terms of the Deposit Taking Institutions Act.

An analyst said the size of FNB's rights issue could have been restricted by the ability of Anglo-American Corporation to follow its rights. Anglo which holds 22,5% of FNB, has been squeezed for cash lately and last year had to auction its shares in Gencor and a portion of its holding in First National Bank.

Based on FNB's rating on the market, it could easily have raised more than R550m, he said. FNB's shares have risen by R28,50 to R58,50.

Banking with (and on) women

58

Sowetan 14/2/92

Almost 17 years after women in America started a woman's bank, South African women are set to take a step in the same direction. A plan to start a women's bank was mentioned to Sowetan Woman by Mrs Zanele Mbeki, wife of ANC international affairs director Thabo, last year. Mbeki could not explain how the bank would work, who was involved and when it would be launched. She could only say that such a bank was planned. Today we publish the story of The First Woman's Bank of New York, which opened in 1975.

EW YORK - Its me said it all: The rst Women's Bank New York.

t was exactly what its e suggested - a bank by men, for women.

All this novel "women's k" had in common with er "normal" banks was money it handled. The sh was strictly "bi-ual". All else was femi-e.

When the First Women's nk opened on New rk's posh Fifth Avenue October 1975, feminism s at its most militant. It s a bold stroke by a group bold women, asserting a man's right to a place in marketplace.

Brainchild

The bank was the brain-ild of an organising com-ttee of 18 men and men prominent in New rk City business, among m early feminist leaders e Betty Freidan.

The group received ndsome assistance from w York Governor Nel-n Rockefeller who ught it would be politi-lly unwise to oppose the ve, which was simply to vide women with the fi-ncial opportunities they d traditionally been de-ed.

Its organisers wished to monstrate that women d the ability to handle ofessions previously re-rved for men, such as re-l and investment bank-g. A survey the year be-re the bank opened its ors to a swelling crowd women clients, of six ajor banks, showed that ly 14 women held the sition of vice-president mpared to 1 570 men.

Founder

Professional women, be-nning slowly to move up e corporate ladders, could te hundreds of instances which they had been de-ed mortgages, business ans, consumer credit and edit cards. One promi-ent city councillor, Ms arol Greitzer, an active under of the bank, had een denied a housing loan fter she was divorced un-ss she could produce a ale co-si ner.

That incident was enough to persuade her not only to throw in her weight with the bank's founding group, but to sponsor a bill that prohibited the city from depositing municipal funds in banks that discriminated against customers in any way.

In less than 10 months, the bank had almost 7 000 stockholders from every section of the US. It struck immediate problems: finding a woman who had sufficient high-level experience to be its first president. Instead of the 15-20 candidates the organisers expected, they could find only four.

Husband

Finally, under Ms Madelaine McWhinney, vice-president of the Federal Reserve Bank in New York, the First Women's Bank opened its doors with a staff of 27, four of whom were men.

The opening drew 1 000 people, including one man who had founded an organisation called Husband Liberation. He picketed the building with an assortment of anti-feminist signs, one of which read: "Woman's place is in the home, not the bank". About 350 accounts were opened the first day, most of them by women who previously had trouble getting loans or credit cards from their existing "male" banks.

> **"Woman's place is in the home - not in the bank"**
>
> - Taken from a banner carried by a member of Husband Liberation

The First Women's Bank provided a full range of banking services both to men and women in "a personal, non-discriminatory manner". To help humanise banking, its staff kept flexible hours (including late nights and Saturdays), paid postage on mail deposits, had colouring books for their customers' children and introduced such innovations as a 24-hour "money machine" - the first ATM - and the "unforgettable cheque", a cheque attached to a carbonless duplicate that remained in the cheque-book as a record.

> **They boasted the first 24-hour ATM**

Soon after, branches of First Women's Bank opened in nine other cities in California and elsewhere, among them Los Angeles, San Diego (best-known for opening a play-pen in its lobby), San Francisco, Seattle, Chicago, Greenwich (Connecticut) and Washington DC.

> **"The truth is that we found that business is universal - bisexual, you might say"**

Services

All had three things in common: First, was their recognition that women were both a neglected and often discriminated against market; second was their commitment to counselling and financial education; and third was their awareness of the need to offer special services to their customers.

But the competition hotted up as conventional banks and financial institutions realised what they were missing. Many of New York's major banks opened special "women's branches" and some financial institutions conducted special seminars for women.

The competition was too much. It was, sadly, the beginning of the end.

Today, the First Women's Bank of New York has become the First New York Bank for Business - and its change of name is significant.

"We have, in fact, become a 'normal' bank", said one senior bank official.

"The truth is that we found that business is universal - bisexual, you might say. There just isn't any room for a bank catering specifically for women, any more than a bank can cater only for men.

"But we have made our point." - *Sowetan Correspondent.*

SBIC FM 14|2|92.

Demand still slowing

S8

Real earnings growth from the leading banking groups continues to buttress the bullish performance of shares in the banking sector. Latest to release earnings and dividend growth at a pace well above the average for the industrial sector is Standard Bank Investment Corp (SBIC), whose 1991 earnings and dividends are up a shade over 20%.

These results are no reflection of any pick-up in the economy. Trends seen in the first half remain firmly in place. Demand for credit is slack and the provision for bad and doubtful debts rose during the year by three-quarters.

In these conditions, total assets increased by a sluggish 10,7% — and MD Eddie Theron believes there has been no loss of market share. If anything, it appears conditions became tougher during the year. While there was some growth in credit demand, the pace was progressively slower as the year progressed. Total assets rose by 3,8% in the second half compared with 7,6% in the first six months.

Most important reason for the favourable result was the improvement in the net interest margin. As expected at this stage of the cycle, the high level of liquidity in the system has generally broadened banking margins. SBIC's net interest income improved by 31,1%, usefully ahead of the 23,6% rise in the 1990 year.

Operating expenses were up by 26,4%, with the biggest boost coming from a whopping 76,2% rise in the bad and doubtful debt provision, to R378,5m. Theron emphasises that a very small proportion relates to amounts owing by large corporations.

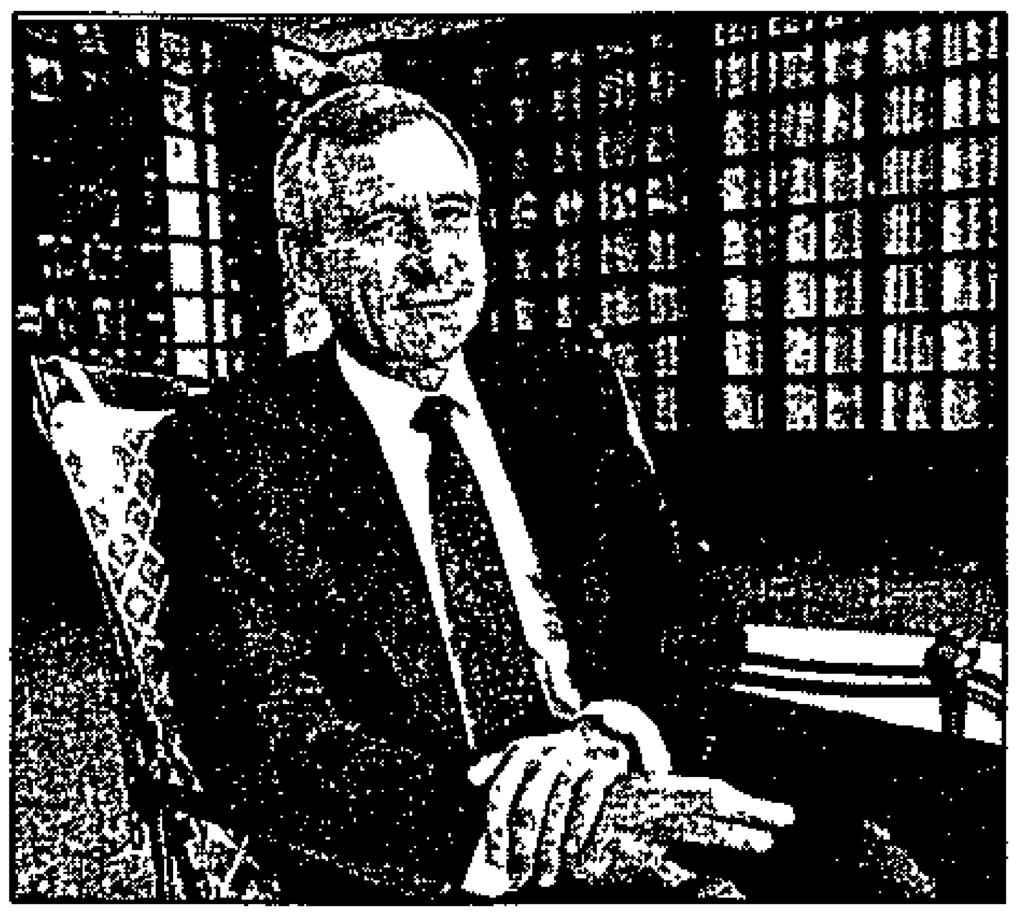
"You could count the number of bad debts of more than R5m on your fingers," he says. Most of the bad debtors are individuals, small businesses and farmers — and 75% of all bad debts by value are for amounts of less than R500 000.

Performance of all the banking subsidiaries was described as pleasing, though it's notable that Stannic has continued to lift its contribution after a restructuring of its book during 1990.

This time, Stannic's contribution to net income after-tax more than doubled, to R75,6m — making it easily the second largest contributor of the banking subsidiaries, after the R309,3m (1990: R249,1m) from Standard Bank of SA. Factors contributing to Stannic's surge included the steady

INTEREST DRIVEN

Year to December 31	1990	1991
Net interest income (Rm)	1 552	2 035
Total income (Rm)	2 613	3 319
Operating expenses (Rm)	1 997	2 525
Attrib income (Rm)	413,2	510,7
Earnings (c)	422	507
Dividends (c)	133	160



SBIC's Theron ... *holding market share*

prime rate, which had favourable effects on its margin, and cost benefits after staff were trimmed.

Total shareholders' funds showed an unusually large jump of 21,2%, to just over R2,7bn, being boosted partly by the scrip dividend option, which was responsible for retention of some R135m in additional equity. Theron offers no comment on how long the scrip dividend will be maintained.

The structure of the balance sheet has been influenced both by the wilting volumes of business and by the rise in equity funds, and that in turn has affected profitability ratios. Return on total assets climbed from 0,93% in 1990 to a healthy 1,04% (up from 0,96% in 1987), while the return on equity merely edged upwards from 19% to 19,3% — but that is well up on the 1987 level of 15,7%.

Market conditions are expected to remain much the same this year, with little improvement in credit demand. Continued high liquidity should enable further earnings growth — though it remains to be seen whether interest margins can improve further.

Andrew McNulty

FIRST NATIONAL

Funding growth

S8

There was little initial response from the market to First National Bank (FNB)'s announcement this week of plans to raise about R550m through a rights issue. When the *FM* went to press, there had been no trade in the share since the announcement, but the stock was bid at R58,50, the same as the last trading price. FM 14|2|92

Buoyant share prices in the banking sector have encouraged speculation that some of these groups might decide to raise more equity capital, even though it may not be needed to attain the capital ratios required under the Act. FNB, on the face of it, is

FM 14|2|92

under no pressures to strengthen its capital ratios.

Its accounts for the year to end-December showed a capital ratio of about 8%, the level which must be reached by January 1995. Still, the annual report noted that "availability of capital has become the single most important limiting factor in determining growth parameters." S8

Reasons for the FNB issue have yet to be spelt out, other than that it will provide FNB with additional capital to "strengthen its ability to maximise opportunities for appropriate profitable growth in both the domestic and international markets."

Though expansion abroad is being considered, senior GM Viv Bartlett says the bulk of the funds would be used to fund growth at home. More specifically, it's designed to regain market share which FNB "deliberately lost" and growth will continue to be emphasised in sectors such as home loans and instalment credit.

On the international front, FNB has representative offices in the UK, the US and Hong Kong and a finance company in Switzerland; it also has a presence in Botswana. These will probably be expanded over time, but Bartlett stresses it would be done carefully, with cognisance taken of the returns and the cost. Finrand fluctuations obviously add to risk.

With FNB's price having more than doubled over 18 months, taking the market capitalisation to just over R4,2bn, a rights issue of R550m does not seem a formidable funding exercise. An ordinary share issue at a discount of, say, 10% would involve an issue of around 10,5m shares, an increase of around 14%. Any earnings dilution should be fairly small.

Andrew McNulty

IMPALA PLATINUM

Not a pretty picture

FM 14|2|92

The interim results shed considerable light on the state of both the group and platinum market — but the picture is not pleasant. Having been hammered by sporadic labour

MISSING PRODUCTION

Six months to	Dec '90	Jun '91	Dec '91
Turnover (Rm)	1 103	1 166	1 080
Plat prod (000ozs)	528	539	382
Pre-tax income (Rm)	388	455	248
Attrib income (Rm)	148	164	125
Earnings a share (c)	242	267	200
Dividends (c)	80	195	55

continue →

Bankorp may have got a R1-bn lifeline

STAR 14/2/92

By Derek Tommey

58

The Reserve Bank has refused to comment on reports circulating in financial circles in Johannesburg that late last year or early this year it lent R1 billion at one percent to the ailing Bankorp, which is now being taken over by Absa.

Central bankers are known to be a tight-lipped bunch and rarely reveal this sort of information.

Bankorp officials are also saying nothing.

The most the Reserve Bank would say was that it was a lender of last resort and frequently accommodated banking institutions.

Its policy was not to assist shareholders, but to protect depositors.

It does not disclose details of its assistance.

However, the Governor of the Reserve Bank, Dr Chris Stals, made a comment this week that could be regarded as an explanation for the report without actually confirming it.

Possibly Dr Stals felt the need not so much to refute the report, but its inference — that the Reserve Bank had lent a large sum of money to Bankorp at a low rate of interest to sweeten the takeover of the group by Absa.

He made the remark in his opening address at a British financial services seminar held in Sandton on Tuesday, which was attended by most of the country's top bankers.

Reserves

While discussing developments in the balance of payments, he deviated from his speech to point out that in the last week of December 1991, the foreign exchanges reserves had dropped suddenly by R900 million, only to bounce back by R1,2 billion in the first week of January.

He said this was the result of window-dressing and added that it showed South Africa was becoming a normal country again.

The size of this capital outflow and inflow is very close to the amount mentioned in the story about Bankorp, which suggests there could be a link.

The reference to window-dressing suggests that financial institutions were responsible for the inflow and outflow.

Bankers point out that if Bankorp suddenly found a foreign depositor wanting to withdraw, say, R1 billion over the 1991 year-end, it would be only natural for it to seek accommodation from the Reserve Bank.

As for the one percent rate of interest charged, the Reserve Bank has been known to follow a similar policy in the past to help struggling banks.

The low rate of interest would have been for only a few days.

The reason why a foreign depositor would want to pull out money from South Africa over the year-end is the easiest aspect to explain.

An important European banker was heard to say some years ago: "I will lend South Africa all the money it wants — as long as it does not appear on my balance sheet."

The year-end is when the books are drawn up and a balance sheet prepared.

Even in these days of vastly reduced money values, the appearance of a R1 billion loan to South Africa in a geographic analysis of a bank's advances would stand out like a sore thumb.

While the bank and these days possibly even the government of the country in which the bank operates would not mind the loan appearing in its year-end balance sheet, the fact remains that the anti-apartheid movement in some countries still has the power to make trouble for banks doing business here.

If this hypothesis is correct, it helps to explain the loan and the resultant secrecy.

If Bankorp was in need of such assistance, it might have started the firebells ringing at the Reserve Bank.

58

Liberty dividends

STAR 14/2/92

Finance Staff

Shareholders of companies in the Liberty Life stable will be satisfied with the strong rise in dividend payments for the 1991 financial year.

Liblife raised its final dividend from 54c to 65c a share, bringing the total to 108c, a 25,6 percent rise over 1990's 86c.

Liberty Holdings total dividend increased by 29,1 percent from 220c to 284c after a final dividend of 174c (1990: 154c).

The pyramid group Liberty Investors lifted the final dividend from 8,8c to 10,4c, making a total of 16,6c for the year, an increase of 18,6 percent on 1990's 14c.

Seardel suffers 'the cold wind of recession' in 1991

B/Day 14/2/92

LINDA ENSOR

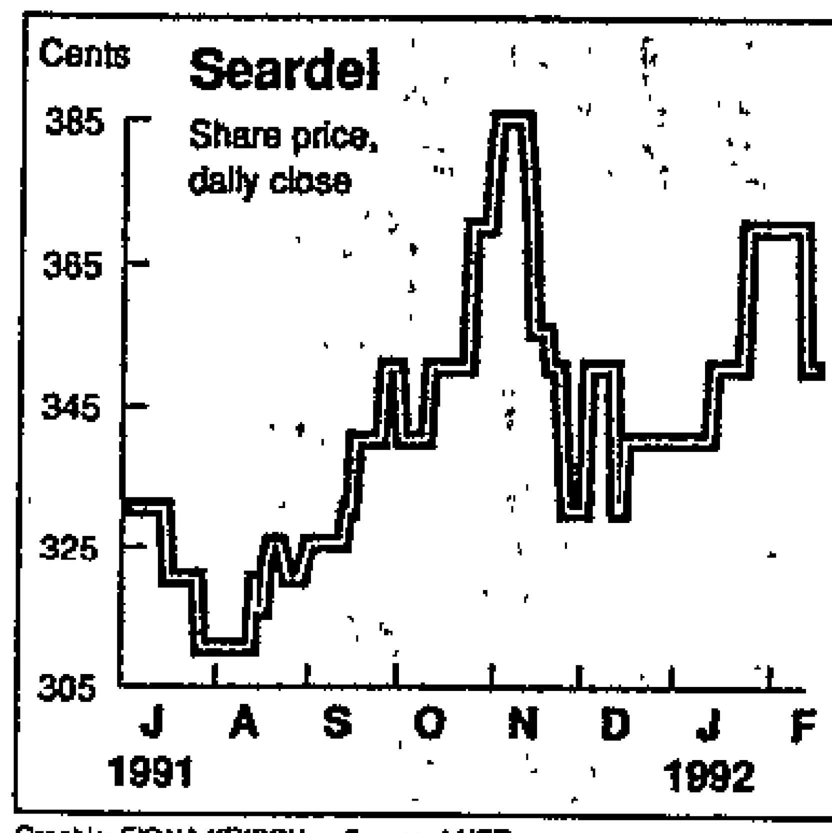
CAPE TOWN — Clothing, electronics and toys group Seardel has maintained an unchanged interim dividend of 8c despite suffering a 25% drop in earnings in the six months to end-December.

The fall in earnings a share to 49,2c defied expectations and prospects for the second half look bleak. Chairman Aaron Searll expects the economy might slow down further by June and believes conditions will continue to be tough through 1992-'93.

Forecasts contained in the 1991 annual report for the 1992 year to end-June have been revised downwards. Pretax income of between R26m-R36m is now expected (previously R49m); earnings a share of between 70c-90c (120c) and a dividend of between 16c-21c (25c).

On this basis annual earnings a share are expected in a worst case scenario to show a decline of 35% and at best a drop of 17%.

"We don't expect an upturn in con-



Graphic: FIONA KRISCH Source: I-NET

sumer spending for a year, especially as the country is in the grips of a severe drought, which historically has an overhang of about 18 months," Searll said yesterday.

He said the 7,3% rise in interim turnover to R575m was insufficient to bear the weight of inflationary cost rises and described the results as reflecting the "cold winds of recession".

Margins came under pressure, dropping to 6,2%, with the result that operating income fell by 16,4% to R35,7m. And taking into account finance charges pre-tax income plunged 30,2% to R18,8m with the bottom-line result being partly salvaged by the lower tax rate.

Exports rose about 15% over the six months and enabled the group to utilise capacity fully to compensate for the fall in local consumer spending. Searll estimates exports made up 7% of sales by end-December.

Export orders looked good until May but thereafter were uncertain. Searll pointed to the difficulties of being competitive when goods from high-inflation SA were exported to countries with a low inflation.

The demise of the Ninja Turtle craze affected the toy division, which experienced a dull trading over the festive season. Results of the electronics division were 15% down on the same period in 1990, though CEO Chris de Bruin said the 1990 year was a high base. Christmas spending was, however, 50% below budget.

Iveco Turbostar wins truck award

Business Day Reporter

TRUCKMAKERS' four-by-two Iveco Turbostar heavy rig won the truck of the year award at the SA Transport Blue Riband Truck of the Year Awards held in Johannesburg this week.

The panel was chaired by SA Transport editor Richard Proctor-Sims.

The Isuzu Artik 250D won the award for "most innovative entry" and the most environmentally acceptable vehicle.

Liberty Life dividend up 25,6%

BDay 14/2/92

58

SEAN VAN ZYL

LIBERTY Life has declared a final dividend of 65c (1990: 54c) a share for the six months ended December.

This brought Liberty's total dividend for the year to 108c a share (86c), up 25,6% on the previous year.

A final dividend declaration of 174c by Liberty Holdings boosted its total dividend payout for the year to 284c (220c). Liberty Investors total dividend was 16,6c (14c) after it declared a 10,4c a share final dividend.

Based on yesterday's closing share price of 4150c, Liberty Life is now on a dividend yield of 2,60%.

Liberty Holdings' is on a yield of 2,58% and Liberty Investors' 2,21%, compared with the insurance sector's average of 3,2%.

The Liberty group said its 1991 results would be published on March 12.

Shareholders registered by the close of business on February 28 would qualify for the final dividends declared.

EXECUTIVE SUITE By William Wells and Jack Lindstrom

JOE GATES

FM 14/2/92 (58)

AA Life: cleaner and leaner

Joe Gates (40) has taken over as MD of AA Life. The company has had a troubled year but parent Avins has made large cash injections. Gates talks to the *FM* about his plans to consolidate, then reshape, the life assurer which was the high-flier of the 1980s.

***FM*: The resources made available by Avins means you are starting with a clean sheet. There's a surplus of assets over liabilities but obviously you will not be pursuing the same policies as in the past?**

Gates: There has been considerable change already. For example, we now have two distribution channels instead of five. Though the very high profile direct mail and telemarketing systems have been discontinued, as has individual life business marketed through brokers, we continue to service queries on those policies. We are now left with a full-time field force of agents and a strong employee benefits division.

One result is we shall no longer be offering the small R15 a month type of policy because you can't do that cost-effectively through a field force. So you can expect us to increase average premium size though, even now, we have a pretty good spread of life policies. There are 200 000 policyholders and the average new policy annual premium is close to R1 500. But they are the core of the business and we shall add to them through sales delivered through professionally trained agents. It's going to be essential to improve the quality of the business we write and the quality of our own service.

AA Life grew too quickly, hence the strains. Now that you have pruned will the growth path continue?

We will seek sustainable and profitable growth but avoid, at all costs, the headlong growth which brought on the problems. We shall also stop trying to be all things to all people. We have examined carefully the businesses we are in and identified our core operations. For example, the decision to pass over our investment portfolio management to The Board of Executors (BOE) was recognition that we were not investment specialists. The decision to give the administration of policies to a company which acts jointly for us and Crusader Life was another attempt to get focus. We don't need to have a string of administrators when we can pay more cost-effectively for that service. The focus is clear: to obtain profitability for both our policyholders and shareholders. It sounds trite but it must be remembered that our core business is to provide benefits for people who either die too soon, live too long, or who become disabled. So we've looked at the business we have, and the business we can reasonably expect to digest, and are right-sizing AA Life to fit.

How have the staff reacted to the poor publicity?

It should be remembered that the publicity stemmed from the company's situation more than a year ago and, today, after numerous changes, AA Life is a much more streamlined and profit-conscious organisation. Nevertheless, our staff were tremendously supportive throughout. Also, there's been this total commitment from the major shareholders. Effectively, they have made a capital injection of R66m. That's given our key staff confidence and none has drifted away, though we did have to make retrenchments, mainly among the telemarketing and direct mail staff. But the most interesting reactions have come from some of my peers in competitive companies. Several have suggested, "Joe, you've been given a clean sheet of paper — and that's not often the case with the CE of a life office." So the truth is, I probably have fewer problems now with resources — including people — than the guys running other small or medium-sized life companies.

We are free to design new strategies which fit in with our leaner shape. These will include going up-market, cultivating more clients in the A-B income groups, but not at the expense of our current markets. That will be done slowly, because it involves a shift in culture. The BOE, to which we're linked through AVF, already operates in that income group, so we will be exploring it. In fact AA Life and BOE this week launched a unique pensions investment portfolio which is indicative of our close relationship and our good base of pension and provident fund clients. And, without treading on the toes of brokers in any way, we will start designing more products for their members.

Has switching your investment portfolios to BOE produced results?

It has, and the signs are positive, but you can't expect spectacular results in a few months because there was a lot of cleaning up to be done in some of the portfolios and that can take time. I think it would be wrong to form judgments based on a few months' experience — give us a couple of years or so.

Any other changes coming at AA Life?

All the shocks are over, though there is further, minor rationalisation in the pipeline. But now there will be concentration on manpower development. We owe it to the people who have been so loyal to give them every opportunity to develop themselves. Following from that, I want to see more devolution of authority, with more decision making at branch level, especially regarding operational profitability. I want to get managers involved in setting their own targets in the context of overall company objectives, deciding what their teams can achieve and all being rewarded accordingly. The role of the executive, in my view, should not be to set people at targets but rather to create conditions in which they can succeed."

Overcharging row: Bank drops action

ARG 15/2/92

(58)

MAGNUS HEYSTEK
Weekend Argus Correspondent

FNB drops case against Wespro and admits: 'We made mistakes'

THE debate about the possible overcharging on bank overdrafts took an unexpected turn yesterday when First National Bank announced that it was dropping its legal action against Jaap Spelt of Wespro.

Two months ago Mr Spelt caused a rumpus in the banking industry when he claimed that 90 percent of clients were being overcharged on their overdrafts, sometimes above the maximum rates allowed by the Usury Act.

FNB brought an urgent interdict against Mr Spelt after he appeared on Fiancially Speaking, a money show on Radio 702 in November last year.

This was despite the fact that Mr Spelt did not mention FNB on the programme.

Under threat of legal action a programme on SABC-TV, which featured Mr Spelt and his allegations, was also dropped.

Mr Spelt's company has developed a software package which calculates the overdraft rates charged by banks.

At the the time, Mr Spelt alleged that of the 5000 overdraft accounts that he had checked, more than 90 percent showed overcharging. In some instances the overcharging had led to businesses closing down.

This was normally the result of bank's altering overdraft rates without the knowledge of the client or not dropping overdraft rates when the prime overdraft had been reduced, he said.

At the time FNB justified its actions by saying that Mr Spelt's allegations were unfounded and were highly damaging to the banking industry. Yesterday FNB conceded that mistakes had been made.

Commenting on the matter, senior general manager Jimmy McKenzie said: "It is the bank's policy to correct immediately any mistakes that may inevitably occur due to human error, and every legitimate claim which may be made against the bank will, of course, be met.

"Furthermore, the bank is constantly taking steps to limit the possibility of mistakes."

FNB said Wespro had furnished satisfactory evidence that it had not implied that the bank had deliberately contravened the Usury Act. As a result, the bank was in a position to withdraw its interdict application against Wespro.

In future FNB would publish interest rates on overdrafts on all bank statements, the bank added.

Yesterday Mr Spelt indicated that he intended suing FNB for his legal costs — and possibly damages — as FNB's actions, which he contended had no foundation, had affected his business.

New twist to allegations of banks overcharging on overdrafts

FNB drops court action over Wespro

STAR 15/2/92

(58)

FINANCE STAFF

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Crime shuts down Perm's PE branch

CPress 16/2/92

58

CP Correspondent

PORT Elizabeth pensioners were dealt a major blow this week when the SA Perm branch in New Brighton township was closed down because of armed robberies.

When the pensioners whose money was paid into the branch went to collect their pensions they found a note on the door which read: "This branch will be closed until further notice."

The pensioners have been forced to travel long distances to get their money.

Stolen

An undisclosed amount of money was stolen from the bank at the weekend by six armed men soon after a Fidelity Guards van had delivered money.

Police liaison officer for the Eastern Cape, Lt Lisbe Vermeulen, said no one had been arrested and police were investigating.

The bank's regional manager, Ayanda Mjekula, said that over the past few years the branch had been increasingly subjected to attempts at forced entry, excessive and costly vandalism to electronic equipment and armed robberies.

"We now find the situation untenable. The safety of not only our clients but also our staff cannot reasonably be guaranteed, as many of the security mechanisms deployed in the Central Business Districts and elsewhere, like Business Watch, do not exist in the New Brighton area," he said.

Bank errors scoop fortune

(58)

S/Times [CM] 16/2/92

By EVE VOSLOO

MILLIONS of rands are being recovered by companies that specialise in checking bank statements for errors made in calculating interest on overdrafts.

The companies are picking up discrepancies that may amount to hundreds of thousands of rands on a single account.

Mr Mike McKiever, managing director of Rand Search in Cape Town, has found more than R400 000 has been overcharged over two years on an overdraft of about R6 million.

Other cases Mr McKiever has handled include:

- R11 000 overcharged in interest over three years on the account of an engineering company;
- R14 000 overcharged over three years on the account of a Boland garage;
- R23 000 overcharged on a farmer's overdraft over three years. In this case the capital amount and interest amount to nearly R60 000, which Mr McKiever is claiming on the farmer's behalf.

Faith

"The client cedes any discrepancy to us and we take a percentage of the money recovered and give the rest back to the client," Mr McKiever said.

One statement showed that on an overdraft of R6 250 000, the bank had calculated the interest due — at 21 percent a year — as R148 000 at the end of one month. The correct amount was R119 791.

"What has shocked me is that often we will check an account and find that not a single interest calculation on that account is accurate," Mr McKiever said.

"The man in the street has faith in banks and trusts them not to make mistakes. The banks' calculations are about 10 percent accurate and 90 percent wrong."

Another company, Wespro Business Consultants, reported recently that it had investigated 242 bank accounts over a year and had found that in only 22 were the interest calculations accurate.

Mr Nico van Loggerenberg, executive director of the Clearing Bankers Association, said the association had been investigating similar complaints since last year.

"We are very much aware of this problem," he said.

"We rectify any mistakes as soon as they are brought to our attention."

Advisory service a boon to clients

SOUTH Africans lack the American mentality of frequently consulting their lawyer, accountant, attorney or any professional advisor, probably because they think it too costly.

Miss Cheryl Howard, personal financial planning advisor of auditing and consulting firm Kessel Feinstein, is working to overcome these views.

She is establishing an independent personal financial advisory service but will not undertake a decision-making role. S Times (Buss) 16/2/92

Cost

There are three methods by which financial advisers make a living. They can earn a commission from selling a product, earn brokerage from trading or charge a fee for advice. The last method can be the most objective.

Miss Howard says the cost of the service is sufficiently modest to be accessible to most people.

Clients take a questionnaire from Miss Howard and discuss it at home. The form covers scenarios such as planning for death, disability and retirement needs and ancillary events such as weddings, holiday homes and educational fees. (58)

Miss Howard then advises clients about what they should consider to meet these requirements. She draws on the experience within the firm for certain issues, but is well informed about investment modes on offer.

"Clients should not view me as a replacement to their current financial links with brokers and others. I aim to advise the client on what products he should request from his broker," she says.

Miss Howard can also advise on the best format remuneration packages should take for individual cases.

FNB finds the going's good

(58)

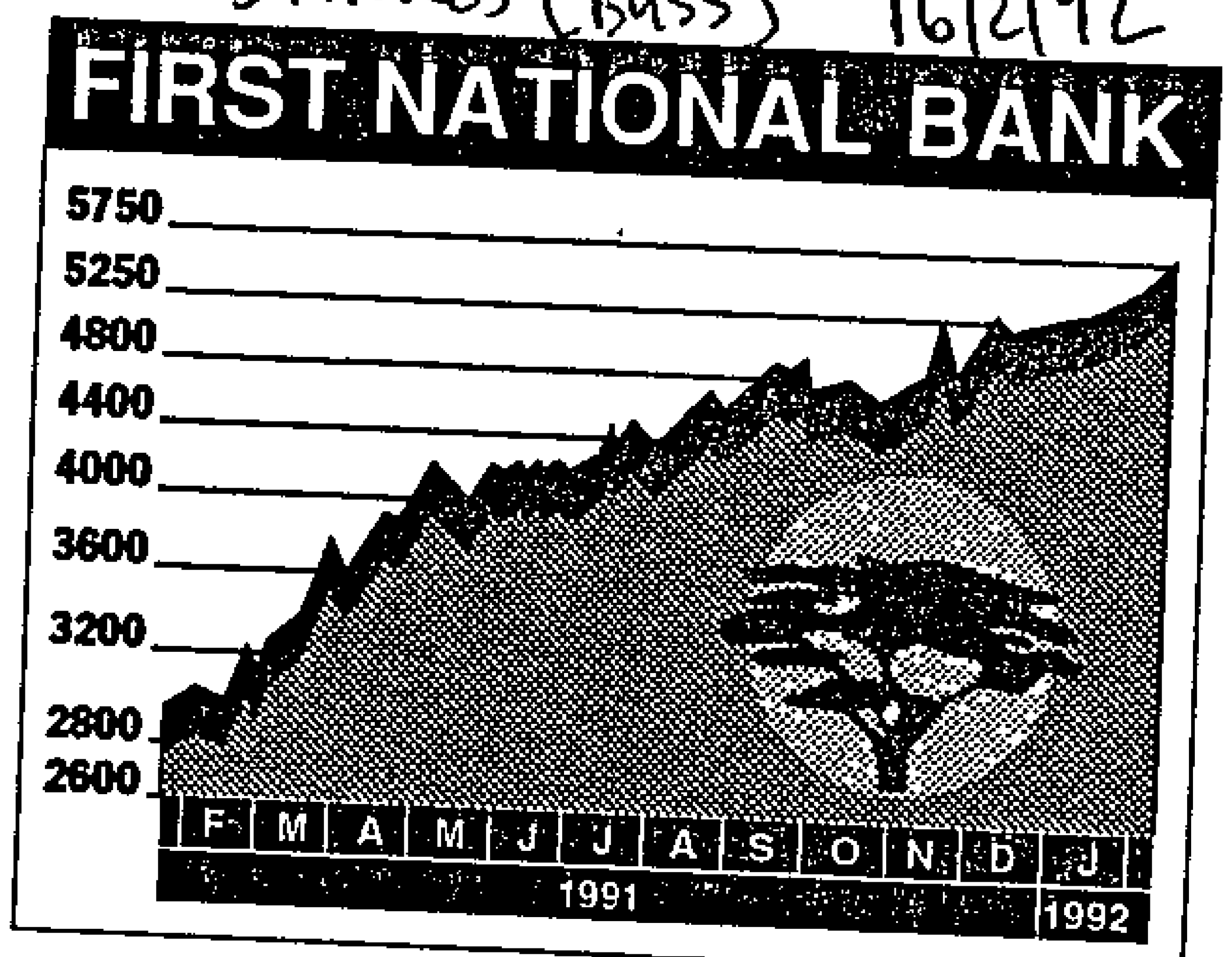
STimes (BUSS) 16/2/92

DIAGONAL STREET
by Julie Walker

FIRST National Bank chief executive Barry Swart is striking while the equity-market iron is hot and the new South Africa is popular abroad.

Mr Swart says: "Because we were originally a subsidiary of Barclays Bank we had no international presence.

"As a result, First National has been at a competitive disadvantage with SA banks that did not have colonial ties."



Last year he was received by the Governor of the Bank of England, whose approval was sought for FNB to establish a branch in London.

The word was that it could establish a subsidiary.

The difference is that a branch trades on the capital of the "mother" bank, but a subsidiary has to be capitalised independently.

Mr Swart says: "At an exchange rate of R5 to the pound there is a limit to the amount of business we could do through a subsidiary."

More likely is a banking business in Switzerland where a branch is allowed.

"We have had a business in Zurich for several years. It is not big in relative terms, employing a handful of people. But we aim to expand it."

FNB is taking advantage of cheap equity in the buoyant stock market and making a R550-million rights issue.

FNB's share price has doubled in a year to R60,50.

Terms of the issue will be announced tomorrow, but the likelihood is 15 shares for 100 at R50. That would bring in R545-million, close to the target. Friday is the last day to register.

Mr Swart says that most of the money will be used in the normal growth of domestic business.

"We aim to regain some of the market share relinquished while the group was being tidied up.

"In the past three years we have made it our policy not to chase business for the sake of it."

The same goes for acquisitions.

Mr Swart believes Absa's acquisition of Bankorp is good for banking in general because it leaves a smaller number of companies in stronger positions. He says FNB never tried to buy Bankorp.

"We are not scared by Absa's size. Our book is much more corporate based and we have had international connections for 150 years.

"We know where we want to be and we will grow no matter what the opposition does."

Mr Swart says shareholders have been rewarded with increased dividends in the past three years in spite of the cover being raised to three times.

The group is on course to meet the capital-to-asset requirement of 8% by 1995 assuming the existing asset mix prevails.

"But to fund growth, capital is needed as well as ploughing back two-thirds of earnings."

A lowering of interest rates will not affect FNB's position.

"That could change if we moved in the wrong direction. We could lose on a change in rates, but if we call it right we would gain."

FNB's shares traded on Thursday for the first time since the rights issue was announced. In higher than usual volume, the price rose 200c to an all-time high of R60,50, indicating the market's approval of the group. The number of shares traded was 23 000.

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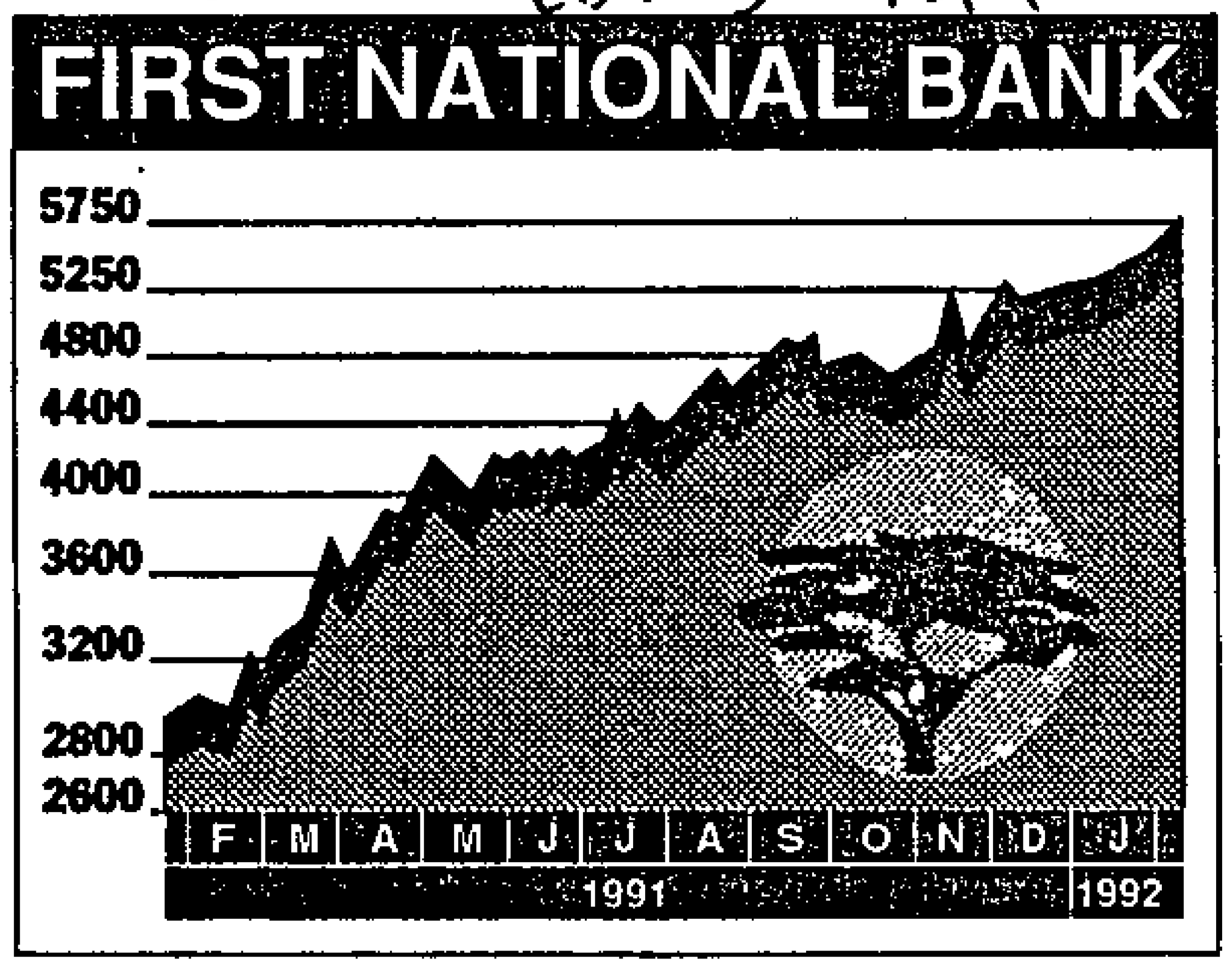

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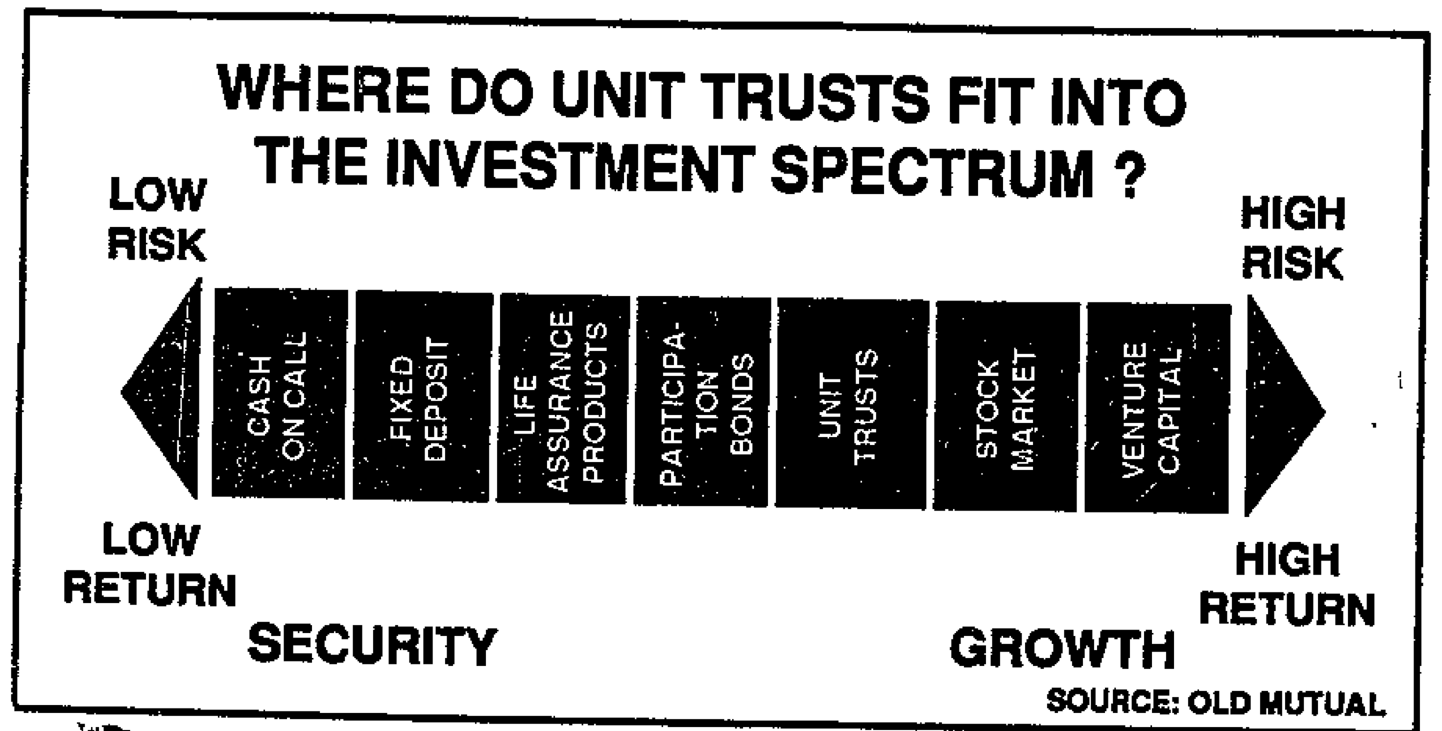
V

Put your trust in an investment that shows an excellent return

S/Times (BUSS) 16/2/92 (58)



A MAJOR investment medium in personal financial planning is the unit trust.

The first unit trust in South Africa was established in 1965 by Sage, with the Old Mutual following closely behind. However, unit trusts were launched in the United States in the 20s and in the United Kingdom in the 30s.

At first they were viewed with suspicion, largely due to ignorance. Consequently, it took time before they were accepted. Almost 60 years later there are now 1 360 unit trusts with over £58-billion (R290-billion) funds under management.

Strict rules governing unit trusts had to be implemented to protect the investor. Advertising could be misleading if unit trust managers were allowed to claim unrealistic results. It was also important that no fund was over-exposed to one particular share.

However, in South Africa a balance was carefully established due to the limited share market.

Unit trusts throughout the world have proved a profitable form of investment.

The United Kingdom unit trusts (or mutual funds as they are called) are invested throughout the world. There are Australian funds, Far East funds and funds invested in other western world money markets.

Interest

In South Africa there are funds specifically catered to individual needs. But there are risks involved which vary according to the funds.

One of the biggest problems facing the industry is that the general public does not know where to buy unit trusts. In fact, they can be bought from any life assurance office, financial advisers, banks and most building societies.

There is a growing interest by the black population in unit trusts. According to Old Mutual records, one in four investors is black. This is largely due to a strong educational drive in the black areas.

Old Mutual has introduced Group Trust specifically for the stockvels for a medium-term investment of four to five years. In order to safeguard the investment, two signatures — the chairman and the secretary — are needed.

Pete de Beyer, Old Mutual's unit trust manager, explains how they work: "When you buy a unit trust, there is an initial charge of 5% which includes brokerage, stamp duty and commission.

"The higher the investment the smaller, proportionally, the initial charge. In some cases, the reduction is not passed on unless requested. In addition, the management company charges an annual 0.5% for handling the money.

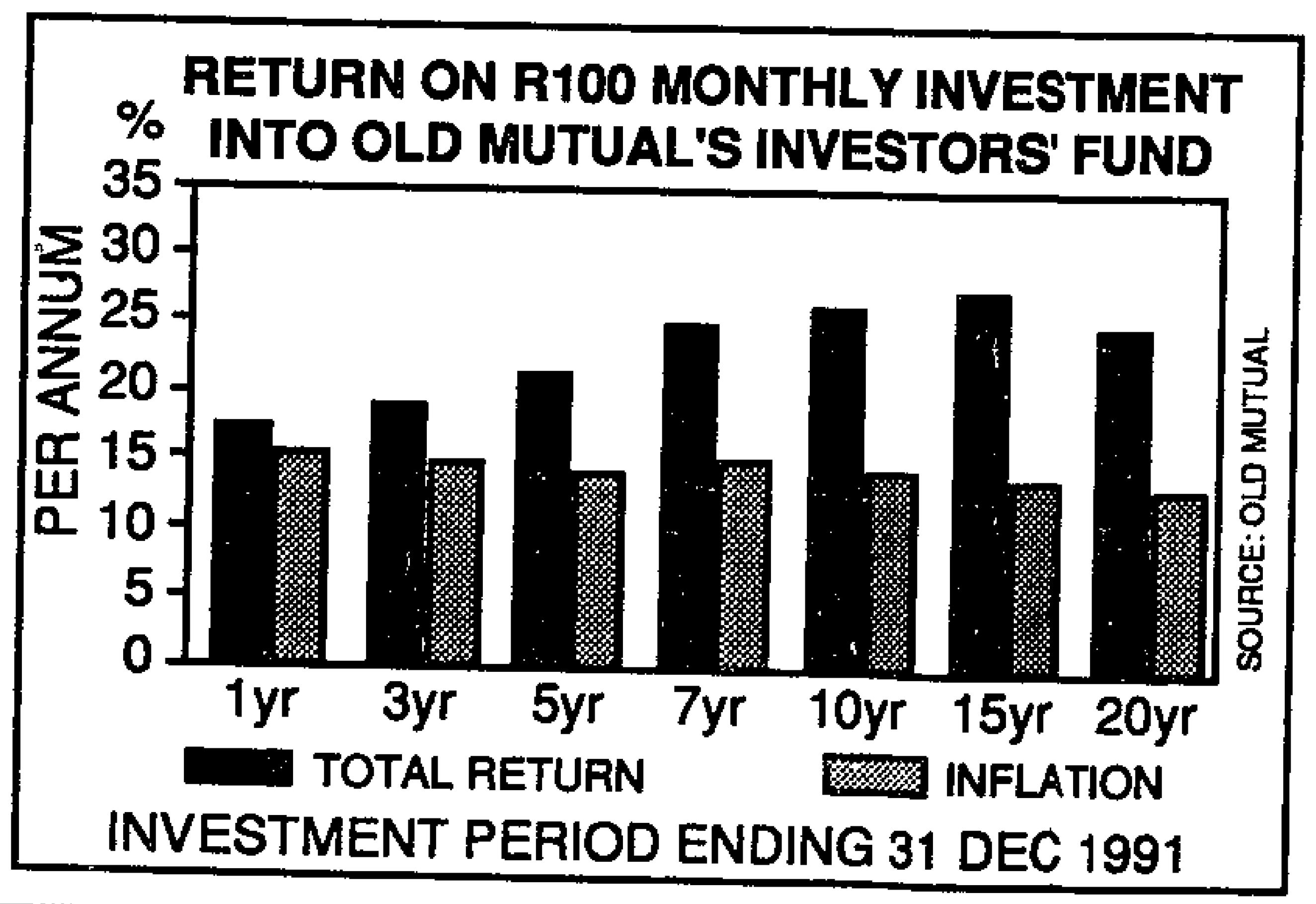
"Most companies offer a range of funds and it is possible to move your investment from one to another (Old Mutual puts a minimum limit of R5 000) for a minimal charge of approximately 2%. However, if the investor wants to move from one company to another, the initial charge would be payable."

Monthly investment is encouraged and there is less risk involved. A lump sum investment made when the stock market is high buys less units, and the exposure to fluctuations is greater than a monthly investment which is spread over the peeks and troughs. One in three Old Mutual investors is a debit order (or monthly) investor.

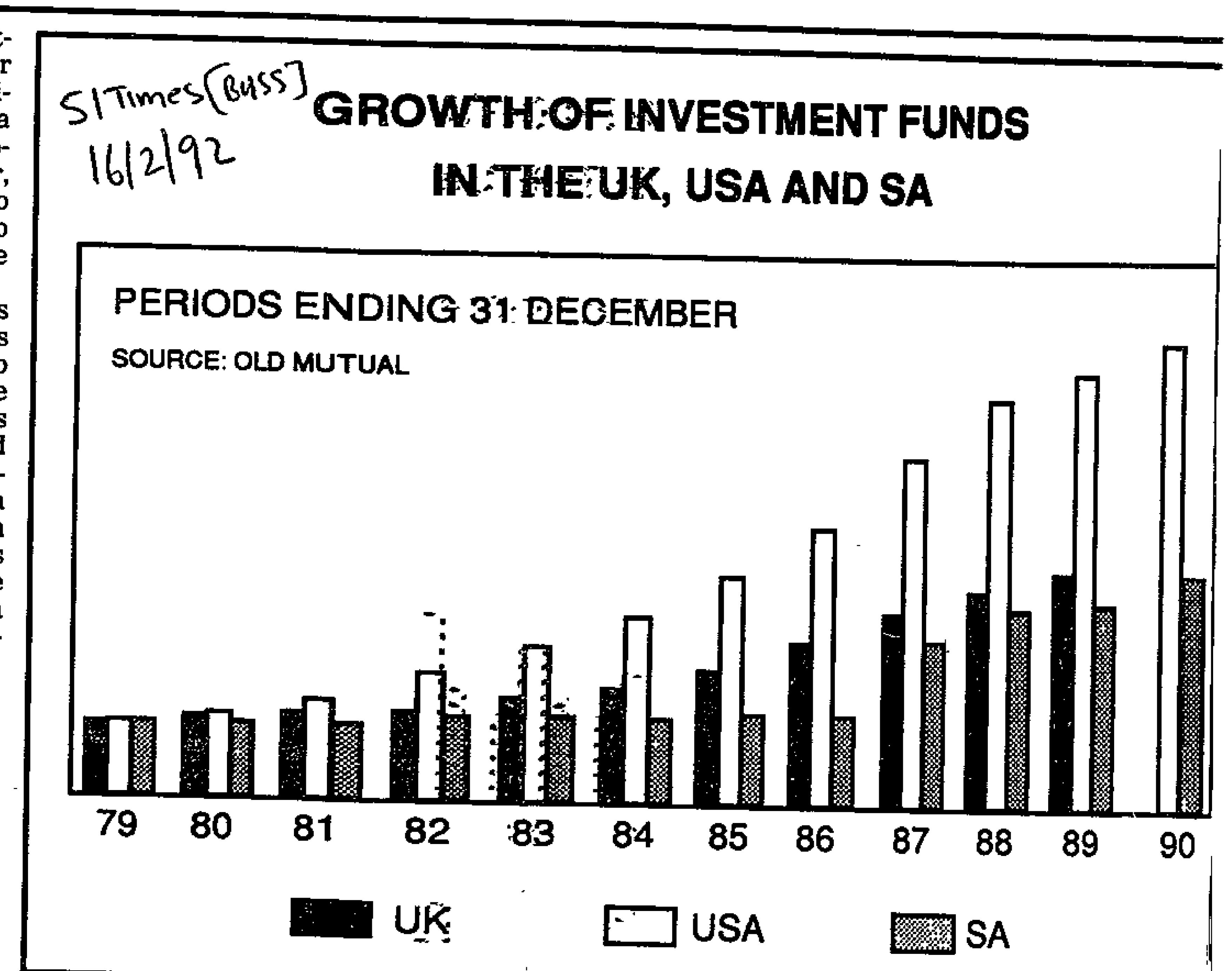
Unit trusts should be regarded as a medium-term investment of between five and ten years.

The total assets of South Africa's 38 unit trusts reached the R10-billion mark for the first time at the end of last year — an increase of more than 105% in just four years.

COOKING UP A LOT OF INTEREST



S/Times (BUSS) 16/2/92



Standard again delivers the goods

S1 Times (BUSS) 16/2/92.

STANDARD Bank Investment Corporation has been a model of consistency in the past 10 years, increasing attributable profits every year and earnings a share with the exception of 1986.

This is a record which none of the largest banks can match.

Earnings a share increased by 20,1% in the year to December 1991 from 422c to 507c and the dividend by 20,3% from 133c to 160c.

This is well above the inflation rate and compares favourably with the growth of blue-chip industrial companies.

SBIC was helped by widening interest margins. Lending rates remained high and

By ROBIN PEGLER

the quantity of money looking for a home grew.

But credit demand continued to be slack.

Although assets increased relatively slowly by 10,7%, advances to customers went up more rapidly by 15%. This followed an increase in shareholders' funds by no less than 21,2%.

Dilution

The increase was helped by the option to shareholders last year to take their dividend in bonus shares instead of cash. In effect this is a mini-rights issue, without the expense and inconvenience that a formal one would entail.

This policy will continue for the latest dividend and presumably will persist for as long as the profitability of the funds retained exceeds the effect of the dilution of capital.

Costs rose by 25% — well above the inflation rate. However, a breakdown shows that they include provision for bad and doubtful debts — up by 76%. This is a symptom of the poor state of the economy.

Bad debts also rose in the 1985-86 recession, though there is a difference in their composition. In 1985-86 large companies were caught with unsound balance sheets. Most of them have now learnt their lesson.

In the current recession, the defaulters are mainly small companies, individual borrowers and farmers. Even so, this is a profitable lending field.

SBIC maintained its market share. It gained in the home-loan market, where its book was up by 20%.

Management expects no more than a modest improvement in the economy this year. This means only limited lending opportunities.

However, one expects the Reserve Bank to be slow in reducing the prime lending rate and liquid funds in the system should continue to increase. This should help margins.

SBIC is thus budgeting for increased earnings this year. It has good reason for its confidence.

Jacobs urges tighter investment controls

58 S Times [BUSS] 16/2/92

By ZILLA EFRAT

THE Jacobs Committee is to recommend a new law to regulate financial services that do not fall under existing legislation.

The report will probably be published next month.

Japie Jacobs, special adviser to Finance Minister Barend du Plessis, says the intention is to protect investors without over-regulating the market.

The proposals are along the lines of Britain's Financial Services Act.

The Masterbond debacle highlights the need for greater protection for investors.

Broader

Similar proposals in the mid-1980s for a change in SA law were rejected.

The Jacobs Committee was appointed to look at prospects for levelling the playing field between deposit-taking and contractual savings institutions.

But its investigation has broadened to cover operations like those of Masterbond, which acted as an agent.

Deposit-taking institutions, insurance companies and unit trusts are strictly controlled. But there is a gap in legislation to regulate the kind of operations conducted by Masterbond.

Dr Jacobs says this unsatisfactory position places greater responsibility on the investor to protect his interests.

His committee recommends that people operating in the broader financial markets comply with minimum standards and make certain disclosures.

It also proposes clearer definitions of agencies, principals, trusts and financial institutions, as well as their roles.

The proposed law might also lay down stricter regulations for the use of terms like financial institution and trust.

Dr Jacobs says a company which has "trust" in its name may give the impression of having some protection which does not exist.

The Committee's proposals deal with the role of agents and would require them to become members of a self-regulatory body, as is done in the UK.

An important recommendation is that the investor be told who the ultimate borrower is and where the money goes after being given to the agent.

Quality

The recommendations also deal with the need for institutions to warn investors about the risks involved.

Dr Jacobs warns that although the government can legislate to protect the ordinary person, it cannot guarantee the solvency of any institution. That depends on the quality of the institution's management and its investors. The ultimate responsibility lies with investors.

He says that investments offering markedly higher returns than those of registered deposit-taking institutions are likely to be high risk.

Banks clear way for tax avoiders

(58)

S Times [Buss] 16/2/92.

By CURT VON KEYSERLINGK

BANKS are taking steps to allow future non-resident depositors to avoid tax on interest they earn in South Africa.

A banker says: "Whether or not the depositor is liable for tax depends on the mechanism used to place his funds in a bank.

"In many cases the wrong procedure was followed. It would have been just as easy to avoid tax."

A non-resident wishing to deposit money in SA usually places his funds in a foreign bank. The foreign bank is instructed to place the money in an SA bank. If the transfer of funds from the foreign to the SA bank takes place abroad, the investor is not liable for tax on interest.

Liable

The reason is that the Receiver of Revenue deems the source of the funds to be foreign. This may happen where the SA bank has an account with a foreign one. But if a non-resident places money in an SA bank which does not have an account with his foreign banker he must take care. The foreign bank may use another SA bank to transfer the funds.

If this transaction takes place in SA, the investor is liable for tax because the Receiver deems the source of the funds to be here.

Tax may be avoided if the depositor's foreign bank places the funds with another foreign bank where the SA one has an account. The funds are deemed to have been sourced from abroad.

A statement by the Receiver says: "If the creditor makes the funds available to the debtor outside SA and the debtor transfers the funds to SA for use here, the source is outside SA and the interest is not subject to tax.

"If, on the other hand, the creditor transfers funds to SA and makes them available to the debtor in SA the source is in SA and the interest is subject to tax."

Under these guidelines interest on foreign funds trapped in the net under the foreign debt standstill would have been taxable because most were transferred at least once from one SA account to another.

But they were exempted from tax in the second interim debt standstill arrangement in 1987.

The Receiver makes it clear that interest on deposits in SA banks by emigrants or foreigners who earned money in SA is taxable even if they no longer live here.

Low

A banker says the finrand has weakened because many non-residents have pulled their funds out of SA.

"They are not transferring their funds into gilts even though these instruments are exempt from tax. They fear that the money could be seized by the Receiver to pay tax on interest earned in the past.

"For the same reason these depositors are taking out funds to reinvest in SA banks under procedures where the deposits would be deemed to be foreign sourced."

The finrand hit a two-year low this week of R3,82.

One of the reasons is anxiety of non-residents about tax.

It is expected that downward pressure on the finrand will continue because many foreigners have term deposits, which they continue to withdraw on expiry.

A banker says: "The Receiver has botched this issue. He is chasing money away for little extra revenue. The White Paper on the Margo Report recommended abolition of the 10% withholding tax to encourage foreign loans and said it brought in only R30-milllion a year."

Bankorp lifeli
stirs bank ange

S/Times [Buss] 16/2/92.

58

BANKORP's refusal to open its books to public scrutiny is blamed for mounting speculation that it received a R1-billion bail-out from the Reserve Bank ahead of its takeover by Absa.

By ROBIN PEGLER and CIARAN RYAN

MARINUS DALING: At the eye of a R1-billion banking storm

The possibility of a huge payout ahead of the Absa deal has alarmed bankers and cast doubt on a purported open-market transaction.

It is also suggested that Bankorp's former parent Sanlam provided guarantees against bad debts not yet brought to book in order to sweeten the deal and limit Absa's downside risk.

Sankorp chief executive Marinus Daling denies the charges, saying the Absa deal was "exactly as reported".

But banking analysts say there are many ways Sanlam could have provided guarantees against further bad debts at Bankorp. For example, it could have agreed to recapitalise troubled Rusfurn, to which Bankorp has a heavy exposure.

Several bankers fear that a bail-out of Bankorp could be read as a sign that the Reserve Bank will extend a lifeline to any bank engaged in the kind of lending that brought Bankorp to its knees.

Banking sources do not discount the possibility of a Reserve Bank lifeline to Bankorp. One suggests that if the Absa deal were cushioned by a public subsidy, Bankorp should have been sold by open tender, allowing other banks to bid.

Resort

Bankorp and the Reserve Bank have done nothing to douse the speculation.

Reserve Bank Governor Chris Stals tells Business Times: "The Reserve Bank, as a lender of last resort, provides daily accommodation to banks and as a matter of policy we do not disclose the nature of this assistance.

"In view of the stories that are going around, I would like to say that the Reserve Bank had nothing to do with the Absa transaction."

A Bankorp spokesman dismisses suggestions that a R1-billion bail-out using public money is not a private, but a public issue.

He says: "It is the same as if Bankorp gave details of your personal bank account to anyone who phoned and asked."

It has been suggested that Bankorp pays only 1% interest to the Reserve Bank. The money could earn 16% elsewhere. The possible loss to the Reserve Bank could be R150-million a year, equal to 26c an Absa share on the increased capital after the Bankorp takeover.

Death

In spite of the suggested size of Reserve bank assistance to Bankorp, Dr Stals says it is not a public issue: "We frequently provide accommodation of up to R5-billion or R6-billion on a single day. A billion rands is not particularly large in terms of our overall accommodation."

Group managing director of Standard Bank Investment Corporation, Eddie Theron, tells Business Times: "It would concern us if, as has been suggested, public money was used to benefit the shareholders of Absa.

"The primary purpose of a lifeboat is to protect a bank's depositors rather than shareholders. If this protection is made public it is tantamount to signing the bank's death warrant."

First National Bank managing director Barry Swart says the reports could be true, adding that the Reserve Bank would normally have used the R1-billion for other expenditures.

The taxpayer will have had to foot the bill for the R150-million shortfall of interest.

Banking sources say Sanlam instructed Bankorp to make an aggressive drive for market share in the late 1980s. That triggered a slide into reckless lending, culminating in a provision for doubtful advances of R284-million and an abnormal item of R100-million in the year to June 1991.

It followed a provision for doubtful advances of R295-million and an abnormal item of R386-million in 1990.

The "old" bad debts, which are not disclosed, are being amortised over five years. Bringing them to account in any single year would be ruinous for the balance sheet.

Bankorp has been slated by analysts for not disclosing its internal reserves and the nature of its bad debts.

Had it followed the example of competitors and moved to fuller disclosure, it would have allowed the public and shareholders to assess the extent of damage to the balance sheet.

The lack of disclosure has fuelled speculation about the group's financial affairs. Bankorp's reporting standards will probably fall into line with those of Absa.

Insurance

In the US, bank disclosure requirements are more open. All banks and savings and loans institutions (the US equivalent to building societies) contribute a percentage of their deposits each year to what is in effect an insurance scheme sponsored by the authorities.

If a financial institution fails, the authorities may approach other banks to take over the defaulter. Bad debts are guaranteed if they occur within the first three years.

This has been extremely expensive for the US taxpayer because of unsound lending practised by financial institutions in more prosperous times. The losses have added to the US Budget deficit.

However, the openness of the system at least allows one to point fingers.

CONSTRUCT A SOLID FOUNDATION BY PARTICIPATING IN PROPERTY BONDS

S/Times [Buss] 16/2/92.

APART from direct investment and property trust, there are two other property-based investments — mortgage participation bonds and property syndication.

Paul Clipsham, former ILPA president, explains: "In the first instance a number of people invest money with a part bond management company which uses the money to grant a commercial bond on a factory, flats, offices or a hotel, and the bond rate is closely linked to prime.

Build

"The investment is for a minimum of five years after which up to three months' notice of withdrawal is necessary. In essence, mortgage participation is an investment in a specialised "building society", but property is clearly identified.

"In the case of property syndication, a property developer will either buy or build a commercial property and then sell shares in the building to individual investors.

"The return on this investment depends on the current value of the building and the rentals received. If the property or any part of it stays vacant, the investor obviously suffers accordingly."

Another ILPA fellow, Satari Mohamed of Bottom Line Consultants, outlines the benefits of property syndication: "It provides investors with a means to include direct property investments into a portfolio of growth assets.

"An investor with a relatively small amount of capital is able to invest directly in prime property without an administration burden. Alternatively, an investors can divide his money between two or more properties and spread the risk.

58 Leader 58

"Some of the aspects to look for include a well located property of sound construction and with a low vacancy factor. Tenants should be financially sound with long leases with built-in rental escalations.

"Property is a growth asset and is likely to provide an investor with returns exceeding the inflation rate over a long period. Although the property market is cyclical, it is not as volatile as the share market and it usually gives a higher income yield when compared with dividend yields from share investments. For these reasons alone, property should play a vital part in every investment portfolio."

A leader in the field of property syndications is investment trust company Metboard, which was the first company to actively promote property syndications to the public. After being in the syndication game for only six years it now controls some R130-million.

The overall property syndication market in South Africa has taken off in recent years, and is now worth over R500-million, but it is still small compared with the participation mortgage bond market which is estimated to be worth about R4-billion.

High demand for credit as cost of living increases

S/Times (Buss) 16/2/92

THERE has been increasing demand for personal credit due to rising interest rates and high inflation causing the cost of goods and services to escalate.

Banks are now developing lending products specifically to cater for the needs of different market segments. Traditionally, banks only offered an overdraft facility, which was generally difficult to obtain. (58) 306

Banks also failed to recognise that a large percentage of the population were not in a position to provide some form of security, yet would be in a position to facilitate repayment of the loan over a reasonable time.

A spokesman for the Standard Bank, says "personal overdrafts are only granted to creditworthy clients and are subject to prior approval by the branch manager.

Acquire

"They are intended to assist customers in financing their short-term needs or with their day to day operations. They are granted for specific periods of up to a year at a time but are subject to review.

"Factors taken into consideration before a personal overdraft facility is granted include financial position, assets and liabilities, security, previous bank record, amount of loan and purpose of loan."

Revolving credit provides a continuing line of credit within an agreed limit. Applicants may borrow up to three times their gross monthly income, subject to a maximum limit of R15 000 and a minimum of R1 000..

Personal financial planning requires short to medium term savings facilities which are offered by banks and building societies. These enable customers to acquire material items such as motor vehicles and household goods and to finance the unforeseen, such as retrenchment, major medical expenses or the death of a family member overseas.

Competition within the financial institutions means that most banks offer similar types of savings accounts.

Unit trust fees drop in ocean

(58) ([illegible])

S/Times (Buss)

16/2/92.

By ROBIN PEGLER

MANY small investors are complaining about the increase in the maximum annual service charge levied on the market value of a unit trust's assets.

It has been raised from 0,5% to 0,75%.

But the cost to an investor is minimal.

In spite of this, it seems that several unit trust management companies have not controlled costs as well as they should have.

Separate

Clive Turner, chairman of the Association of Unit Trusts, says the increase is the first in the industry's 26-year history. The charges remain low compared with those in other countries.

Two separate charges are levied:

- The 0,75% fee covers portfolio management and administration costs.
- The difference between buying and selling prices as quoted in the newspapers amounts to about 6,5%. This is to cover marketing costs, including brokerage and marketable securities tax.

The impact of the increased annual service fee is low for investors regarding both capital value and income. If one had R1 000 in a general unit trust for one year, one would receive about R2,50 less in annual income.

Mr Turner says the fee of 0,5% deterred newcomers to the industry. Although there are now no fewer than 41 unit trusts, the more the competition, the more efficient they will be.

Unit trusts have by far outperformed inflation both in capital value and income for 20 years. Capital values may have been inflated by the excess of demand over supply of good-quality scrip, thus enhancing the performance of the unit trusts with little effort. But that is a fact of life in SA's economy.

Mr Turner says administrative costs have increased sharply, particularly because the number of accounts has risen to nearly a million.

Unit trusts are run by large institutions. In many cases their staff also administer life-assurance and pension funds, so a relatively small part of their time is spent on unit trusts.

However, recently established funds have not had time to build a large base of funds under administration.

Table 1 gives a few samples of these and shows that even the higher fees will not go far in covering costs. Administration and research are done at a loss.

Another objection to the higher service charge is based on the argument that the increase in a fund's asset value should have taken care of rising costs. This is shown in Table 2.

Mr Turner counters this argument by saying that in the early 1980s systems could not cope with the enormous amount of new business. They had to be replaced by advanced technology.

He says unit trusts should have lifted service charges years ago. In the UK, a conservative estimate of the average charge is 1,25% a year — and can be 3%.

It appears from Mr Turner's remarks that the cost of computer hardware and software is much greater than that of salaries. One must hope that the electronic infrastructure is now sufficient to cope with the high level of business and that cost increases will be lower.

TABLE 1

Unit Trust	Funds under Administration R000	Fee receivable 0,5% R000	Fee receivable 0,75% R000
METFUND..	27,9	140	209
VOLKSKAS.	28,4	142	213
METLIFE	13,6	68	102
SENBANK	3,7	18	28

TABLE 2

	31 Dec '81	31 Dec '86	31 Dec '91
Unit Trust Industry:			
Total assets Rm	719	2 723	1 1397
0,5% fee on above Rm	3,6	13,6	57,0
No of funds	12	14	41
Capital index*	44,8	100,0	206,7

* This means that, hypothetically, if an investor had bought a basket of all unit trusts at 31 December 1986, his money would have more than doubled five years later

CLIVE TURNER: First service charge increase in 26 years

Leader

Even so, the income from fees shown in Table 2 shows a rapid increase. On the old scale of 0,5% income was over four times what it was five years earlier. On the new scale income will be more than six times higher. This rate of increase is far more than SA's inflation rate.

It looks as if in many cases the unit trusts have been used as a loss leader.

Their performance is reported regularly and they advertise the expertise of their supporting institution as a whole. The loss on administration fees probably gives better value for money than the equivalent amount spent on advertising.

It is preferable to see investors paying less in fees than to have money go into the pockets of the advertising agencies. Nevertheless, the larger funds at least have little incentive to contain costs. It would be better if they did.

Half-price unit trusts

S8

By Dr Bruce Ilsley, Filpa.
Marketing Director,
Sage Life STAR 17/2/92

You can buy unit trusts at a discount of almost 50 percent depending on your tax rate, through an investment in a unit trust linked retirement annuity (RA).

This is one of the most tax-efficient growth investments you can make.

If you had put your money directly into unit trusts over the years, you would certainly be more than happy with the results.

For example, an investment of only R100 a month for 20 years in Sage Fund was worth a staggering R380 734 by December 31 last year (assuming income was invested).

This is a compound return of more than 23 percent a year.

You can now invest in unit trusts at a substantial discount using a Sage Life retirement annuity with SageLink profit participation.

Because the SageLink portfolio is invested in Sage Fund and Sage Resources fund, your investment goes via the retirement annuity into unit trusts.

The unique MultiTrust portfolio is also available for retirement annuity investment.

MultiTrust is a major Sage Life innovation. It links investment performance to a selected range of leading unit trusts, so that you get the benefit of investing in the right unit trust at the right time.

Your "discount" arises from two savings:

- Tax relief of up to 43 percent on retirement annuity contributions.
- Because of Sage Life's bulk-buying facility, you don't have to pay the normal five percent initial charge which would be levied if you invested directly in Sage unit trusts.

An indication of the effective discount when you invest in this way is set out in the table below.

Your "discount"

Taxable income R	Effective "discount" %
Over R90 000	46
R70 000	44
R45 000	35
R25 000	27

Source: Sage Life

What is more, a retirement annuity investment grows entirely free of tax and there are major tax concessions available when benefits are taken at the end of the term.

Retirement annuities have never provided a more attractive investment opportunity.

Bruce Ilsley . . . major tax concessions.

NEWS IN BRIEF

Bank dispute settled

Sowetan 17/2/92

THE dispute between First National Bank and Wespro over alleged contraventions of the Usury Act has been settled. (58)

FNB said on Friday Wespro had furnished satisfactory evidence that it had not implied that the bank deliberately contravened the Usury Act. As a result, the bank was in a position to withdraw its interdict application against Wespro.

MONEY MARKETS by Sheridan Connolly

Dealers keep up the pressure, but Stals maintains tight rein

HOW much longer can the Reserve Bank continue its struggle to keep a tight rein on liquidity — and on the banks — as rates continue sliding downwards?

Expectations of a cut in official interest rates have been building up over the last year or so, but Reserve Bank Governor Chris Stals has put up a tough fight and has, thus far, not relented to market pressure.

With all factors in the market firmly in place for a Bank rate cut, dealers are confident the move is in sight and most feel the release of January's CPI data this week will be a major deciding factor for Stals.

Last week the 90-day liquid BA rate dipped to its lowest level in three years when Standard Bank held its BA rate at 16,00%. Dealers said the lower rate was in line with investor demand, liquidity levels and expectations of a cut within the week.

Most of the other major institutions lowered their BA rates to 16,10% from the previous week's 16,20%.

Meanwhile, the strong demand for liquids was reflected in Friday's weekly Treasury bill (TB) tender. The average three-month TB rate dropped 14 points to 15,80% from 15,94% at the end of the previous week. BDay 17/2/92

The Reserve Bank received a massive oversubscription of R1,449bn in the allotted R200m tender with tenders at the average price only partially allotted. There were no full allotments, the Bank said.

High levels of liquidity in the market have warranted a downward trend in the TB and associated rates, and this has seen the banking sector benefiting through lower deposit rates.

Consumers, on the other hand, have been at the wrong end of the stick — they have had to face high and stubborn inflation, lower deposit rates and crippling lending rates.

The Bank continued its liquidity-draining operations from the market last week with two special TB tender issues of R600m and R500m respectively. Dealers said the action was taken to drain the routine inflow of cash at mid-month.

Last week, the money market shortage had edged up to R1,872bn on Thursday from R1,334bn on Wednesday

Stanbic makes foray into London market

STAR 17/12/92

By Neil Behrmann (58)

LONDON — Standard Bank Investment Corporation's (Stanbic) London subsidiary has become a member of the London Stock Exchange and will be making a market in South African equities and bonds this week.

Standard will thus be the first South African banking institution to make markets in shares.

"We hope that our presence will boost SA equities trading in international markets and encourage investment flows into South Africa," says Pieter Prinsloo, chief executive of Standard London, the UK unit.

"Moreover, such a presence abroad will help SA corporations raise foreign finance," he says.

Alan Beuthin, head of equity and foreign trading, believes Standard's London team will help boost liquidity in the volatile and thinly traded SA equity market.

"Prices surge on a hig‹ volumes and then tumble on low levels of trading, a classic sign of illiquidity," says Mr Beuthin.

Son of a former Wits University law professor, Mr Beuthin was first a broker in Johannesburg.

He joined Merrill Lynch in London in the Seventies and headed international equity dealing departments before moving to Deutsche Bank Capital Markets.

Most members of his dealing team followed him from Merrill Lynch to Deutsche Bank and then to Standard.

Pieter Prinsloo . . . encourage investment flows

The entry of Standard will hopefully make pricing of SA shares more competitive, says John Taylor, an analyst at James Capel, an agency broker active in the SA equity and bond market.

Keener market making should help boost trading volumes and investment, he says.

Ray Davis, who is in charge of Smith New Court's SA dealings, welcomes a "committed market maker" such as Standard.

Smith New Court, which also trades SA equities on Nasdaq, the over-the-counter market in the US, is by far the leading market maker in SA equities, say brokers.

Other less active market makers are Credit Suisse First Boston and Warburg Securities, they say.

De Beers, Driefontein and Anglo American are the most actively traded SA shares in London.

But other leaders, notably Kloof, Vaal Reefs, Free State Geduld, Ofsil, Richemont, Rustenburg and Impala have spreads between bid and offer prices of as much as three to five percent.

The gap between buy and sell prices of less active SA counters is as wide as five to 10 percent or more.

Clearly the wide spreads and volatile prices on small volumes are a disincentive for foreign institutions, say market participants.

Standard London intends contacting corporations, institutions and foreign players to boost volumes, says Mr Beuthin.

As a starter, Standard London is the lead distributor of the bull-bear two-year Transnet Elfi IV bond issue, he says.

Standard, however, is entering a tough market.

Dealers say that there is too little business for too many brokers and the market desperately needs a gold and metals boom to raise overall trade.

In January, for example, SA share trading accounted for less than one percent of the £27,7 billion (R139 billion) of foreign shares traded on the London exchange's Seaq International screens.

The Australian share was even lower and that market is even more illiquid than the South African one.

Besides equity market making, Standard London is forming a bank specialising mainly in Southern African trade, corporate finance and investment.

It is involved in discussions with the Bank of England to obtain a banking licence in the UK.

If Standard London meets requirements of the central bank, it will be the first South African bank to obtain a UK banking licence since the debt moratorium in 1985.

Since the moratorium, SA banks have had either branches or representative offices in London.

After Standard Chartered's sale of Stanbic in 1987, the latter set up a small representative office in London.

It also bought a trade finance and counter-trade company, Ludgate Advisory Services.

Ludgate, among other activities, serviced UK corporations in the use of SA debt to help them finance operations in South Africa.

It has been renamed Standard London and will be the central operating unit of the institution.

Pieter Prinsloo has succeeded Stanbic's recently appointed MD Eddie Theron as chief executive in London.

Mr Prinsloo rose through Stanbic's ranks as a merchant banker. Patrick Quarmby, formerly in the corporate finance division of merchant banker Schroder Wagg, is managing director of operations.

Focus on financial markets

BDay 17/12/92 SHERIDAN CONNOLLY (58)

ISSUES concerning the regulation of financial markets in southern Africa will come under the spotlight at a major international conference in Sandton next month.

Speakers from the UK, Malawi, Botswana, Zimbabwe and SA will address future developments of financial markets in southern Africa with special attention focussed on international regulatory trends.

Issues to be discussed include First World financial systems in developing countries, the relevance of global regulatory developments for southern Africa, risk management, efficiency and competition in financial markets, and financial markets outlook in southern Africa.

Rabie benefits from quitting black housing

B/Day 17/2/92

LINDA ENSOR

CAPE TOWN — Withdrawal from the risky black housing market has benefited Rabie Investment Holdings, which made a strong return to profitability in the six months to end-December.

Earnings a share of 1,4c (loss of 3c) were notched on a pre-tax, pre-interest operating income of R1,6m (loss of R49 000). A bottom-line profit of R266 000 was generated compared with the previous loss of R5,5m, most of which arose from a R5m write-off in the previous year of land owned in Natal and of the closure of the Natal operations. Group policy is to declare only an annual dividend.

The results were achieved despite the recession and despite an onerous interest bill of R1,1m, which was the legacy of the write-off.

"The redirection of the business into traditional markets, namely exclusive and unique projects in prime areas, allied to the curtailment of exposure in the black market, has been successful," chairman John Rabie said, adding that the group had redirected itself quickly and efficiently.

Rabie said the group's developments in the Western Cape had traded better than expected and this boded well for year-end results. Exclusive projects included Dolphin Beach. Two others were developed in Hout Bay, and one in Constantia.

The only remaining exposure in the black market is through Rabie's 40%-held associate company, Kwikspace Holdings, which is involved in the manufacture of pre-built accommodation units. Kwikspace made a satisfactory contribution to net income.

An export drive of Zozo units into sub-Saharan Africa was under way, Rabie said, and exports now represented about 10% to 15% of Kwikspace's turnover.

Kwikspace could be expected to make a meaningful contribution to the year-end result, Rabie said.

He was optimistic that results would improve during the second half as overheads were lean, the group's development skills were in demand and it was poised to enter the sectional title apartment market. Negotiations were also under way to extend its involvement in retail developments.

Rabie said the group planned to reduce gearing over the next two years. There was a need to conserve cash for this purpose so he could not say whether the payment of a dividend would be resumed at year-end.

Bankorp had to put aside R900-m for bad debts

STAR 18/2/92

(58)

By Derek Tommey

When you need a billion or two

Many people may have wondered where the Reserve Bank obtains the R5 billion or R6 billion which it sometimes provides in the form of accommodation to banks in need.

There is no problem. The Governor of the Reserve Bank has only to sign a piece of paper bearing the words: "I promise to pay the bearer R1 billion (or whatever the figure is) on demand at Pretoria" and the deed is done.

For evidence of this check the banknotes in your pocket. Such are the powers of a central bank Governor.

Bankorp, soon to be merged with Absa, has had to provide R900 million against bad debts in the past two years.

This shock figure emerges in a report issued by Republic Ratings, a company which assesses the creditworthiness of top financial institutions.

However, the report should go some way to reaffirming the confidence of depositors in Bankorp — which might have been shaken by reports of a R1 billion bail out by the Reserve Bank.

Republic Ratings says that after a comprehensive survey of Bankorp, it has accorded it a rating of A1 +, the highest possible short-term rating.

Reassurance

This should reassure depositors with Bankorp and its associate companies that that they can withdraw their money whenever they need it.

"It shows that Bankorp's capacity for repaying short-term deposits on time is extremely strong," says Dave King, chairman of Republic Ratings.

The rating process is based on confidential and detailed information. It also takes into account the role of the authorities in maintaining confidence in the banking sector.

Republic Ratings believe that the authorities will assist any of the "big five" banks in the event of temporary problems, notwithstanding a public stance that automatic support should not be assumed.

Mr King said that factors considered in evaluating the quality of the debtors book were the substantial provisions that had been made against bad debts (totalling R900 million over the last two years) and new management and credit philosophies implemented subsequent to the appointment of Mr Piet Liebenberg as executive chairman.

Although certain large exposures were cause for concern, no further material write-offs were envisaged in excess of the significant existing provisions against some of these exposures.

Mr Leon Claasen, a director of Republic Ratings, said that his organisation had rated Bankorp A1 + before the proposed merger with Absa was announced. He said the merger would further enhance Bankorp's creditworthiness.

The merger should produce several benefits for both groups, he said, and would reduce Bankorp's need for the additional capital it would have required to meet the 1995 capital adequacy requirements.

Mr King said that Republic Ratings was established two years ago to meet the need for more information about the main credit providers in this country.

The assessments followed similar lines to those of the two leading American rating organisations, Standard and Poor and Moodies.

Exception

An A1 + rating was the highest awarded for short-term performance, while a "triple A" (AAA) was the highest for long-term performance.

While most of the financial institutions issuing long-term stock had been assessed AAA, there had been one notable exception. This was the Land Bank which had been awarded only a "double A."

"Our decision to give the Land Bank only a double A was based on the belief that the Government in the new South Africa would be less likely to give financial support to the Land Bank and the farmers," said Mr King.

Money market anticipating cut in Bank rate

By Sven Lünsche STAR 18/2/92 (58)

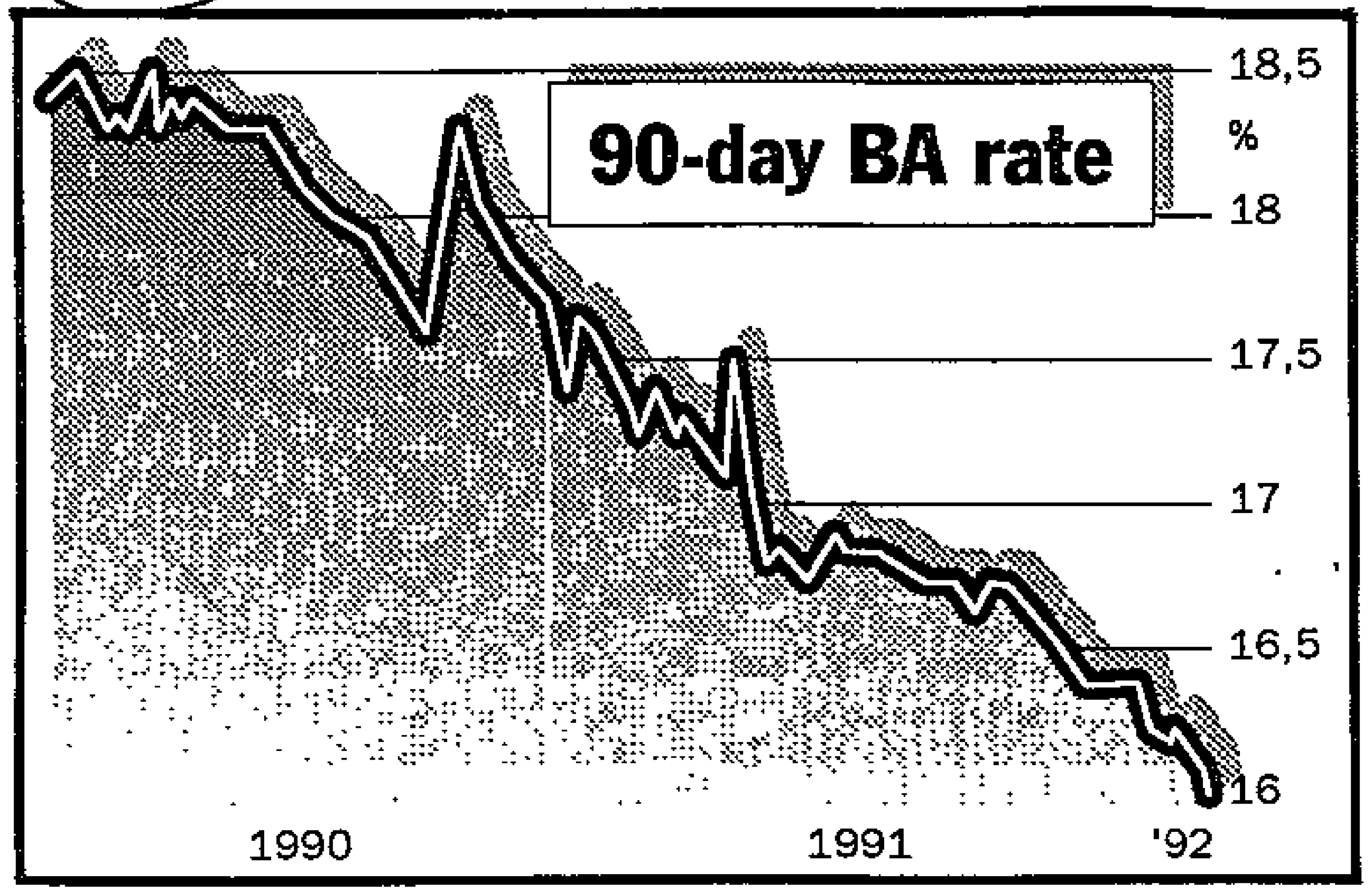
The money market's key 90-day Bankers' Acceptance rate fell to 16 percent yesterday, its lowest level in over three years.

The steady decline in the BA rate over the past few months has been in response to market anticipation of a cut in the Reserve Bank's Bank rate, money market dealers say.

Standard Bank lowered its BA rate to 16 percent last week and most banks followed suit yesterday.

But dealers say there is still considerable uncertainty in the market about the timing of a cut in the Bank rate, which would lead to lower interest rates generally.

The decline in the BA rate follows on the fall in the average rate of three-month Treasury Bills to 15,8 percent on Friday, compared with 15,94 percent in previous week.



On the foreign exchange market, in the meantime, the financial rand continued its recent slide amid large selling orders from investors in Europe and the Far East.

The financial rand closed yesterday at R3,77 to the dollar — over 10c down from Friday's close of R3,64.

Dealers said yesterday that investors were now selling the currency in anticipation of further falls.

The initial impetus for the plunge was provided by uncertainty about non-resident tax changes and a number of disinvestments.

"What we are now seeing is some currency speculation and selling in expectation of a further drop in the investment currency," a forex dealer said.

The uncertainty was not removed by a statement by Inland Revenue on Friday, stating that no new form of tax on non-residents had been introduced.

However, analysts stressed that many foreigners had not been aware of the tax implications on their investments.

The decline has pushed the discount between the finrand and the commercial rand to 26 percent only three months after it was running at a record low level of around seven percent.

The commercial rand was slightly weaker yesterday, closing a cent lower at R2,812 to the dollar.

Bankorp gets top rating

58

Business Staff ARG 18/2/92

BANKORP, soon to be merged with Absa, has had to provide R900 million against bad debts in the past two years.

This shock figure emerges in a report issued by Republic Ratings, a company which assesses the creditworthiness of top financial institutions.

However, the report should go some way to reaffirming the confidence of depositors in Bankorp — which might have been shaken by reports of a R1 billion bail-out by the Reserve Bank.

Republic Ratings says that after a comprehensive survey of Bankorp, it has accorded it a rating of A152I12, the highest possible short-term rating.

This should reassure depositors with Bankorp and its associate companies that that they can withdraw their money whenever they need it.

"It shows that Bankorp's capacity for repaying short-term deposits on time is extremely strong," says Dave King, chairman of Republic Ratings.

The rating process is based on confidential and detailed information. It also takes into account the role of the authorities in maintaining confidence in the banking sector.

Republic Ratings believe that the authorities will assist any of the "big five" banks in the event of temporary problems, notwithstanding a public stance that automatic support should not be assumed.

Mr King said that factors considered in evaluating the quality of the debtors book were the substantial provisions that had been made against bad debts and new management and credit philosophies implemented subsequent to the appointment of Mr Piet Liebenberg as executive chairman.

Although certain large exposures were cause for concern, no further material write-offs were envisaged in excess of the significant existing provisions against some of these exposures.

Mr Leon Claasen, a director of Republic Ratings, said the merger with Absa would further enhance Bankorp's creditworthiness.

Bankorp given top rating

SHARON WOOD

SPECULATION of a R1bn Reserve Bank bale-out failed to dent Bankorp's top A1+ credit rating released yesterday by Republic Ratings.

An A1+ rating, the highest short-term rating, was given to Bankorp because it had an extremely strong capacity to repay short-term deposits on time, a statement by Republic Ratings said.

A consideration had been the role of the authorities in maintaining confidence in the banking sector. The rating agency said it believed the authorities would assist any of the "big five" banks in the event of temporary problems, in spite of the Reserve Bank's public stance that automatic support should not be assumed.

The rating follows speculation that the Bank extended a R1bn loan at 1% interest to Bankorp before the Absa/Bankorp merger.

Republic Ratings director Leon Claasen said the rating did not take account of Bankorp's merger with Absa and this would add further support to the bank's credit quality.

A major factor behind the high rating was Bankorp's substantial provisions for bad debts (R900m during the past two years). The new management and credit philosophies implemented after Piet Liebenberg's appointment as executive chairman were other contributing factors.

"Although certain large exposures were cause for concern, no further material write-offs are envisaged in excess of the significant existing provisions against some of these exposures," the statement said.

As one of the major banks, Bankorp had an extensive and diverse deposit and client base which added stability to its operations. Confidential and detailed information was used in the two-month investigation to arrive at an informed opinion on the creditworthiness of the bank.

(58)

Bday 18/2/92

Stals sticks to monetary guns

STAR 19/2/92

By Sven Lünsche

Reserve Bank Governor Dr Chris Stals yesterday put paid to speculation about an imminent cut in interest rates.

He strongly re-affirmed the Bank's policy of linking a reduction in interest rates to clear signs that consumer price inflation was receding.

Economists have been speculating that the Bank could announce a cut in its rate before or at the time of the Budget speech next month.

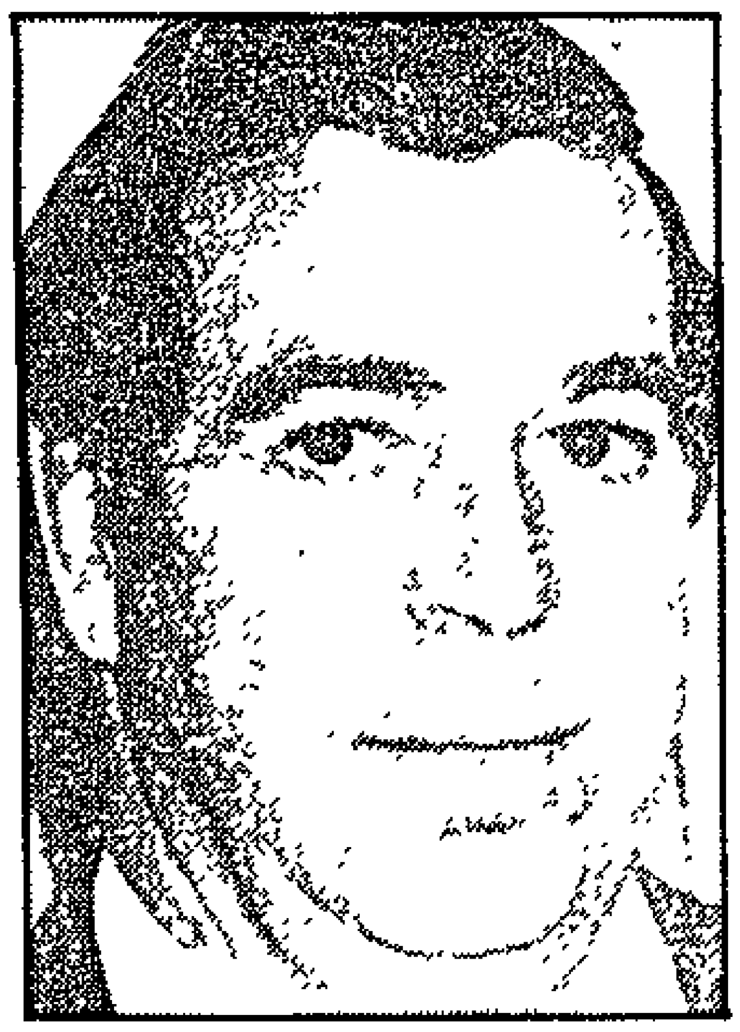
On the money markets short-term interest rates have been falling steadily in the past few weeks in anticipation of a cut in the Bank rate.

However, Dr Stals told delegates at the annual Frankel Max Pollak Vinderine conference yesterday the bank would "maintain its present level of monetary tightness".

He warned that after almost 20 years of double-digit inflation, South Africa might already be in some form of stagflation (high inflation coupled with negative growth rates).

"In this situation we cannot afford to revert to the arcane policy of short-term cyclical demand management and its inevitable results of a stop-go economy.

"The Reserve Bank therefore continues to stick to its policy of medium-term objectives and general financial stability, rather than short-term spurts of growth that slowly but surely step us up to higher levels of inflation, and a lower macro-economic growth potential."



Dr Chris Stals . . . adamant

The Bank's tight monetary policy had already achieved a number of desired results:

- The broad money supply measure M3 had increased by an annual rate of only 7,4 percent since February last year and credit extension to the domestic sector had slowed to an annual 10,7 percent over the past 10 months.
- The gold and foreign exchange reserves had increased to R9,4 billion, equal to just over two months' worth of imports, while the Bank had no foreign liabilities outstanding.
- Producer price inflation had declined from a high of 14,6 percent in November 1990 to 8,6 percent in December last year.

However, Dr Stals also listed a number of factors which mitigated against a premature cut in interest rates.

Topping the list were high consumer price inflation rates and the pressures on the Minister of Finance to create additional expenditures to meet the demand for social spending.

Furthermore, the drought in the summer rainfall areas threatened to prevent "the breakthrough we so desperately need in our struggle against inflation".

Dr Stals emphasised, however: "To the extent that the rate of inflation does decline during 1992, scope will be created for some relaxation in monetary policy."

But in calling for a major overhaul of South Africa's entire production structure, he warned that such a restructuring could not be jeopardised by an early balance of payments crisis, or by escalating inflation.

"At this stage there can be little doubt about the need for the retention of disciplined monetary and fiscal policies."

Looking at other monetary factors in the year ahead, Dr Stals said the balance of payments should produce a slightly smaller current account balance, but sufficient to offset the modest net capital outflow expected.

"Against this background it should be possible to keep the exchange rate of the rand relatively stable."

In his keynote address to the conference, Finance Minister Barend du Plessis warned that the economy had not yet bottomed out, but added that a positive growth rate should be achieved.

Investment spending could take the lead in boosting the economy, after gross domestic fixed investment had slumped by 8,5 percent in 1991, he said.

deteriorate in future, legal steps can still be taken

(2) Messrs Thor Chemicals SA (Pty) Ltd

Mercury-containing substances imported

*23. Mr R F HASWELL asked the Minister of Trade and Industry.

Whether a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply, imported any mercury-containing substances in 1991, if so, (a) under which import codes and (b) what is the name of the company in question?

B137E

The MINISTER OF TRADE AND INDUSTRY

Although two import permits have been issued in favour of the company concerned, the Department of Trade and Industry cannot confirm whether the permits were utilised

(a) Import code 2620 90

(b) Thor Chemicals (Pty) Ltd

New questions:

AK 47 rifles seized/surrendered

*1. Mr A J LEON asked the Minister of Law and Order.

(a) How many AK 47 rifles have been (i) seized in the course of police action and (ii) voluntarily surrendered to the South African Police for reward since 1 January 1990 and (b) in respect of what date is this information furnished?

B120E

The MINISTER OF LAW AND ORDER

(a) (i) 1 075

(ii) 241

(b) 1 January 1991 until 24 January 1992.

Right-wing organizations: members guilty of acts of terrorism

*2. Mr P H P GASTROW asked the Minister of Justice.

Whether any members of right-wing organizations were convicted of committing acts of terrorism during the period 1 January 1991 up to the latest specified date in 1992 for which figures are available; if so, (a) how many, (b) of which organizations did they claim to be members and (c) of which acts of terrorism were they convicted?

B122-3E

The MINISTER OF JUSTICE:

No

(a), (b) and (c) Fall away

Working group on education

*3. Mr R M BURROWS asked the Minister of National Education:

(1) Whether he, any members of his Department and/or any other Ministers were involved in a working group on education which sat between March and July 1991, if so, (a) which persons were involved and (b) what were the dates of the meetings of the working group,

(2) whether the group devised a draft report on its activities, if not, why not, if so,

(3) whether any party, group or individual repudiated the report in any way after it had been drafted, if so, what are the relevant details,

(4) whether a final report was accepted?

B138E

The MINISTER OF NATIONAL EDUCATION

(1) Yes.

(a) Persons involved:

Dr C J van der Merwe:	Minister of Education and Training
Adv L A Pienaar:	Minister of National Education and Environment Affairs
Mr P G Marais:	Deputy Minister of Education and Development Aid.
Dr J B Z Louw:	Director-General, Department of Education and Training
Dr J G Garbers:	Director-General, Department of National Education
Mr J Samuel:	Head, ANC Education Desk

continued

Prof N C Manganyi	Vice-Chancellor, University of the North
Dr N J McGurk:	SA Association of Independent Schools
Mr S M Ramokgopa.	AZAPO
Mr I Rensburg	General Secretary, National Education Co-ordinating Committee (NECC)

(b) 9 March 1991
28 March 1991
20 April 1991
17 and 18 May 1991
14 June 1991
17 July 1991

(2) Yes.

(3) No.

(4) No. The report was however accepted by the working group The working group originated after a meeting between the State President and a delegation lead by Mr Mandela on 25 February 1991 regarding education matters. At a follow-up meeting on 19 August 1991 the contents of the report were noted

Recognition of two teacher bodies

*4. Mr R M BURROWS asked the Minister of National Education.

(1) Whether he has recognised, for the purposes of negotiation in education, two teacher bodies, the names of which have been furnished to the Minister's Department for the purpose of his reply, if not, why not; if so, (a)(i) when and (ii) under what conditions were they so recognised and (b) what number of teachers does each represent;

(2) what are the names of these two bodies,

(3) whether he will make a statement on the matter?

B139E

The MINISTER OF NATIONAL EDUCATION:

(1) No, because the applications are still being considered.

(a) (i) Falls away.

(ii) Falls away.

(b) Final, verified membership numbers of the two bodies are not yet available.

(2) The names of the bodies are.

(i) South African Democratic Teachers' Union (SADTU), and

(ii) National Professional Teachers' Organisation of South Africa (NAPTOSA).

(3) No.

Financial institutions: deposit insurance

*5. Mr D H M GIBSON asked the Minister of Finance

58

(1) Whether, in the light of the recent failure of certain financial institutions, the Government is considering (a) the introduction of deposit insurance for financial institutions in South Africa and (b) giving assistance to investors in a certain financial institution, the name of which has been furnished to the Minister's Department for the purpose of his reply, if so, (i) what conditions are being contemplated in regard to such insurance and (ii) what assistance to such investors is being contemplated, if not, why not, in each case,

(2) whether it is the intention to give such assistance in the future, if so, what assistance,

(3) what is the name of the financial institution referred to in paragraph (1) above?

B144E

The MINISTER OF FINANCE:

(1) (a) No; Not withstanding the cost burden which would be placed on the industry, deposit insurance would lead to an undermining of management efficiency and risk management in financial institutions,

(b) No; Investors voluntarily contracted with the institution concerned to invest their investments as agent and according to the agent's discretion The Government or regulatory authorities cannot be held responsible for the business decisions of investors, given the fact that the aforementioned investors without coercion and by agreement granted a

continued

practically unlimited power of attorney to the aforementioned institution for the employment of their investment funds These investors cannot expect the Government to assume responsibility for the manner in which the management of the group concerned conducted its business In spite of this fact the Government appointed a task group consisting of senior officials of a number of government departments and regulatory authorities to protect the interests of investors S8

(2) No

(3) I assume that the honourable member is referring to the Masterbond Group of Companies; not one of the companies in the group is a registered financial institution

Financial schemes: certain group of companies

*6 Mr D H M GIBSON asked the Minister of Finance S8

(1) Whether any Government or semi-Government authorities undertook investigations into the financial schemes conducted by a certain group of companies, the name of which has been furnished to the Minister's Department for the purpose of his reply, if so, (a) which authorities, (b) when were these investigations undertaken, (c) what reports were made and (d) what is the name of the group in question;

(2) whether any action was taken by the Government in response to these reports; if not, why not, if so, what action"

B154E

The MINISTER OF FINANCE

(1) Yes,

(a) The Financial Institutions Office, the Financial Services Board and the Department of Banking Supervision of the South African Reserve Bank;

(b) Five inspections and one legal investigation since 14 January 1986;

(c) Inspection reports in terms of the Inspection of Financial Institutions Act, 1984 (Act No. 38 of 1984), which were submitted to the institution concerned and two reports were submitted to the Attorney-General of the Cape of Good Hope for his consideration, S8

(d) The Masterbond Group of Companies

(2) Yes; the Department of Banking Supervision of the South African Reserve Bank consulted financial institutions for the purpose of formulating a policy on commercial paper The purpose thereof is to enable the public which (inter alia) invest in debentures, to be better informed when making their investment decisions by means of wider disclosure by the issuer of debentures This policy was finalised during September 1991 (before the application for the liquidation of certain Masterbond companies) and was statutorily enacted in Regulations which were promulgated on 7 January 1992 by the Minister of Finance in terms of section 90 of the Deposit-taking Institutions Act, 1990, as well as in provisions contained in the latest bill amending that Act.

NI: services for remuneration

*7. Mr A GERBER asked the Minister of the National Intelligence Service:†

(1) Whether he will furnish information on whether certain persons have rendered any services to the National Intelligence Service for remuneration; if not, why not, if so,

(2) whether a certain person, whose name has been furnished to the Minister's Department for the purpose of his reply, has rendered such services to the National Intelligence Service; if so, what is the name of this person;

(3) whether this person is still rendering services to the National Intelligence Service;

(4) whether he will make a statement on the matter?

B162E

The MINISTER OF THE NATIONAL INTELLIGENCE SERVICE:

(1) No; It is the function of the Service to collect security intelligence as well as conduct counter-intelligence operations

continued

and to diligently execute this function. In this process it is evident that the so-called services, which in the context of the question apparently means the furnishing of intelligence, are indeed rendered, in some instances for remuneration

(2), (3) and (4) Lapse.

HSRC: opinion polls iro education

*8. Mr A GERBER asked the Minister of National Education:†

(1) Whether the Human Sciences Research Council (HSRC) conducted any opinion polls in respect of public opinion regarding education in 1989 and 1990; if so, what percentage of White respondents agreed or tended to agree in 1989 and 1990, respectively, with the statement that it is essential for pupils from different racial groups to receive education in separate schools,

(2) whether the HSRC issued a statement in the media on the 1990 findings; if not, why not, if so, what were the contents of this statement?

B163E

The MINISTER OF NATIONAL EDUCATION.

(1) Yes

The HSRC did in fact in 1989 and again in 1990 in a country-wide general opinion poll include questions in respect of public opinion regarding education

In the 1989 opinion poll a question was put whether it was essential that pupils from different population groups to receive education in separate schools. Of the white respondents 36,1% agreed and 12,6% were inclined to agree.

In the 1990 opinion poll 42,8% agreed and 16,5% were inclined to agree.

(2) Yes.

The HSRC did issue a statement in the media in which the findings of 1989 were compared with that of 1990 The statement was issued to SAPA for circulation to the media The contents of this statement are indicated in the annexures hereto (The statements are provided in the language in which they were issued)

ANNEXURE A

1990 Telephone Poll: News release on 15 May 1990 Perceptions of White South Africans on School Integration

The majority of white South African adults are in favour of all schools being thrown open, while maintaining standards and admission requirements

This was revealed by a telephonic opinion survey—involving 1 856 adult whites representing the four provinces—which was recently conducted by the Centre for Conflict Analysis of the Human Sciences Research Council (HSRC)

Almost 52,0% (51,6%) of the respondents were strongly in favour or predominantly in favour of all schools being thrown open if the same admission requirements and standards were applied to all, while 40,9% were either strongly against or predominantly against it.

According to Drs Chris de Kock and Nic Rhoodie, senior research specialist and chief research specialist respectively at the Centre, great caution should be taken in generalising the findings to all whites in the RSA, as they are an indication of the broad trends in the country.

The study was conducted after the recent announcement in parliament of two new education provision models which also make provision for the admittance of pupils of other races to white schools.

"The two proposed models led to a controversial debate particularly in the media, which made it necessary to determine the public's attitude," Dr De Kock said

Responding to questions on the acceptability of the two models, 66,2% of the respondents reacted positively towards the model by which existing white government schools could be privatised—on request of the majority parents involved—and by which such private schools could decide for themselves whether pupils of other races would be admitted

54,2% reacted positively to the second model by which white government schools may allow non-white pupils conditionally (for instance if the majority of the parent community involved are in favour of schools being thrown open).

continued

the necessary proclamations to implement the principles of paragraph 3 6 2 after consultation with the interested parties

In order to give effect to clause 3 6.4, the South African Police has undertaken extensive research bearing in mind the objects of the Dangerous Weapons Act, 1968 (Act No 71 of 1968), with particular reference to the powers of the Minister as provided for by sections 2(2) and 2(3) of the same Act

This research having been finalized, the South African Police decided that the most effective manner to honour the contents of the spirit of the National Peace Accord is the drafting of an explicit prohibition which will prohibit a person attending or participating in any political gathering in or on any public place from being in possession of any dangerous weapon or any firearm or a replica thereof

Of paramount importance is the definition of a political gathering which includes any political gathering, concourse or procession which has been organised, convened or held or otherwise brought about with the prime intention to discuss, attack, criticise, promote, or propagate the principles or policy of a political party or organisation, whether or not such party or organisation is registered in terms of any law Excluded from the definition of a political gathering would be any traditional or cultural gathering or any ceremonial gathering

In order to evaluate the ambit of the prohibition, the attention is drawn to the proposed definition of a dangerous weapon which reads as follows.

'dangerous weapon' means

(a) any object which has been designed or manufactured with the object of inflicting a bodily injury, or

(b) any object which has not been designed or manufactured with the object of inflicting a bodily injury, but which may inflict a bodily injury if it were used to commit an assault, unless a person in possession of such an object is able to prove that with respect to the surrounding circumstances he at no time had any intention of using such object for any unlawful purpose or that he at no time had any intention of using such object to intimidate any other person or persons;"

Thus the definition of a dangerous weapon will include, amongst other objects, assegais, spears and battle-axes.

Members of the South African Police will as soon as the Proclamation has been published receive instructions to arrest persons in possession of dangerous weapons or firearms at any political gathering. Members of the South African Police will, however, not be expected to usurp the functions of the courts in any manner whatsoever

With regard to the provisions of section 2(1) of the Dangerous Weapon Act, 1968 (Act No 71 of 1968) which contains a prohibition on the possession of dangerous weapons accompanied by the necessary unlawful intent, members of the South African Police are instructed to ensure that the prohibition is enforced.

Provision may be made for certain exemptions, for example, persons in the service of the State, security guards or *bona fide* bodyguards.

After consultation with the IFP and the ANC on 18 February 1992, the Government is now in a position to announce the proclamation.

(2) No.

Investigation of poverty problem: working group

*15. Mr J L WALSH asked the Minister of Finance:

(1) Whether the working group under the chairmanship of the current Deputy Director-General (Financial Planning) of his Department appointed by the Government to investigate the poverty problem has submitted a report, if not, (a) why not and (b) when does he expect such a report to be submitted; if so,

continued

(2) whether the contents of this report will be published or made available in any other way, if not, why not, if so, what are the relevant particulars?

B99E

The MINISTER OF FINANCE.

(1) (a) No.

(b) The working group followed an operational approach The results of its work were submitted to Cabinet in the form of memoranda on the basis of which various decisions were taken. These decisions were reflected in this year's Budget, notably the introduction of the food intervention scheme for which the Minister of National Health was made responsible

(2) It is not intended to make a public report available, for the reason mentioned in (1)(b)

Number of prisoners previously convicted

*16 Mr A J LEON asked the Minister of Correctional Services:

How many persons in South African prisons as at 31 December 1991 had been convicted of offences previously?

B121E

The MINISTER OF CORRECTIONAL SERVICES

The precise information is not centrally available and can only be obtained by a costly and manpower intensive country-wide survey.

However, a survey undertaken on 24 July 1991 shows that at that stage approximately 14,6% of the prison population were first offenders whilst approximately 85,4% were recidivists. Should this percentages be made applicable to the prison population of 31 December 1991, it means that of 73 214 sentenced prisoners, approximately 10 689 would have been first offenders whilst one or more previous convictions would have been recorded against approximately 62 525. The fact that a previous conviction is recorded against a person does not necessarily mean that he had served a sentence of imprisonment since sentences may include for instance the following. a warning and dismissal, corporal punishment, fines, suspended sentences, postponed sentences, referral to a rehabilitation centre or reformatory, etc My department is presently undertaking an investigation into the whole question of recidivism but due to the extent of this project it is unfortunately not possible to give an indication as to when it would be completed I nevertheless undertake to furnish the hon member with more information after completion of the project.

Further allocations: targeted aid schemes

*17 Mr K M ANDREW asked the Minister of Finance:

Whether any further allocations were added to the R220 million originally budgeted for targeted aid schemes, if so, what are the amounts involved?

B130E

The MINISTER OF FINANCE:

None for the 1991/92 financial year.

Interest on deposit made by tenant

*18. Mr B B GOODALL asked the Minister of Trade and Industry.

58

(1) Who receives the interest paid on the deposit made by a tenant dealt with in terms of the Estate Agents Act, No 112 of 1976;

(2) whether it is the intention to amend the said Act in this regard; if so. (a) what amendments are contemplated and (b) when is it anticipated that the amending legislation will be submitted to Parliament?

B131E

The MINISTER OF TRADE AND INDUSTRY:

(1) Interest on moneys deposited in an estate agent's trust account must, in accordance with the Estate Agents Act, 1976 (Act No 112 of 1976), be paid by the estate agent to the Estate Agents Fidelity Fund. The Estate Agents Board, however, refunds a portion of the interest to the estate agent concerned in order to compensate him for costs incurred in this regard.

(2) The matter is under consideration.

continued

(a) The Estate Agents Act, 1976 (Act No 112 of 1976) is entirely being revised at present (58)

(b) It is anticipated that amending legislation will be furthered during the 1993 Parliamentary session

Financial problems: teachers/lecturers

*19 Mr D H M GIBSON asked the Minister of Finance:

(1) Whether he has received any complaints and/or representations relating to the financial problems being experienced by teachers and university lecturers whose conditions of employment enable them to obtain free or subsidised education for their children, which benefit is now subject to taxation as a result of the deletion by section 12(1)(j) of the Income Tax Act, No 129 of 1991, of the provisions of section 10(1)(qA) of the Income Tax Act, No 58 of 1962,

(2) whether he will consider amending the legislation in question to provide relief to these educators? B132E

The MINISTER OF FINANCE

(1) No complaints or representations relating to the financial problems being experienced by teachers and university lecturers as a result of the deletion of section 10(1)(qA), have been received Representations have, however, been received regarding the principle that benefits of this nature will, in future, be taxable

(2) No The fact that a teacher or lecturer's child may study free of charge at the educational institution where he is employed, is unquestionably coupled to the services rendered by such teacher or lecturer and represents a fringe benefit which is, as is any other form of fringe benefit, taxable in the hands of that teacher or lecturer

In accordance with present legislation, the value of the fringe benefit will be equal to the cost thereof to the employer. In the case of free or subsidised education for children or teachers or lecturers, the cost to the employer will accordingly be determined on the basis of the marginal-cost method, ie the cost to admit a further scholar or student. In the majority of cases, the value of the fringe benefit for tax purposes will be minimal and should therefore not cause any financial problems for parents.

Mercury pollution: Mngcweni River

*20. Mr W U NEL asked the Minister of Water Affairs and Forestry:

(1) Whether a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply, has been given any instructions by his Department regarding mercury pollution of the Mngcweni River; if so, (a) what are the relevant details and (b) what is the name of the company concerned;

(2) whether this company has complied with such instructions; if so, what are the relevant details, if not, what steps, other than legal steps, have been taken by his Department in this regard? B134E

The MINISTER OF WATER AFFAIRS AND FORESTRY.

(1) Yes.

(a) The company concerned was requested to cease production of mercurial effluent thus obviating the need to use evaporation dams for mercurial effluent disposal and to obtain the services of a recognised consultant to determine the cause of the mercury pollution and to advise on measures to prevent such pollution.

(b) Messrs Thor Chemicals SA (Pty) Ltd.

(2) Yes The company concerned complied with the Department of Water Affairs and Forestry's instructions and undertook the following measures to eliminate water pollution:

(a) Lined all evaporation dams used for mercury effluent disposal;

(b) improved housekeeping to prevent contamination of ground and surface water;

(c) closed off the leach pad which was a major cause of pollution in the past, and continued

(d) process wash water and rainwater being held in the containment area and which was contaminated, are now force evaporated through a steam process

In order to safely dispose of the historical mercurial effluent, the company concerned has been authorised to irrigate this effluent under strict conditions, which include, *inter alia*, pre-treatment to a mercury limit well within the General Standard and control of the irrigation to prevent any further ground water pollution

Continuing monitoring is taking place and has so far revealed that the concentration of mercury in the particular stream downstream of the factory is well within the accepted standards applicable to drinking water and is thus safe for human consumption and other domestic uses

Imported substances defined as raw materials

*21. Mr R F HASWELL asked the Minister of Environment Affairs

(1) Whether it is the policy of the Government to define all imported substances from which something is extracted as raw materials, if so,

(2) whether the Government recently amended this policy; if so, what are the relevant details; if not, why not;

(3) whether the Government still considers mercury-containing wastes imported by a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply, to be raw materials; if so, why; if not, what is the position in this regard;

(4) what is the name of the company in question? B135E

The MINISTER OF ENVIRONMENT AFFAIRS

(1) No. The policy not to import wastes remains unchanged Raw materials are not waste materials. The definition of a raw material does not depend on the origin or the physical or chemical state thereof Whether it is imported or manufactured locally, is also irrelevant. The phrase "raw material" is defined in acknowledged dictionaries as a substance from which something is, or will be manufactured A raw material could be a substance such as iron ore from which iron is extracted for the production of steel, a manufactured product such as flour for baking bread, a waste product such as blast furnace slag that serves in turn as a raw material for the manufacture of cement; or a by-product such as polypropylene from Sasol's oil-from-coal process

(2) This question falls away. As already stated this is not a matter of policy but rather the definition of a term

(3) Yes Mercury is extracted from the substances concerned for the manufacture of a product and thus per definition, those substances are raw materials.

(4) The name of the company concerned is as provided to me by the hon member

Pollution of Mngcweni River: legal steps

*22. Mr M A TARR asked the Minister of Water Affairs and Forestry.

(1) Whether any legal steps have been instituted against a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply, in connection with pollution of the Mngcweni River; if so, what are the relevant details; if not, why not,

(2) what is the name of the company in question? B136E

The MINISTER OF WATER AFFAIRS AND FORESTRY:

(1) No. When the pollution came to the attention of the Department of Water Affairs and Forestry, immediate steps were taken to rectify the pollution problems. I refer the hon member to my earlier reply to Question 20 in which I gave particulars of the actions taken by both the Department and the company concerned to prevent water pollution In the light of these actions, the compliance with the Departmental instructions and the positive response, it was decided not to institute any legal steps. I wish to stress, however, that should the situation

Business Report

'NBS prefers independent standing'

CT 17/2/92

By ARI JACOBSON

IN a perfect world First National Bank (FNB) would be linked with Natal Building Society (NBS), said FNB MD Barry Swart in an interview last week.

Commenting in the wake of the mass mergers taking place in the financial services industry, Swart talked of the instant synergies with NBS's large home loan book and the cultural ties already in place between the two institutions.

"But this ain't a perfect world and some institutions prefer to maintain their independence."

However, NBS is not exactly independent — they have the backing of Norwich Union which has roughly a 30% stake, and through the French Bank industrial giant Barlows also has a significant holding. FNB adds to the solid share holding with about 11%.

Swart added that growth by acquisition was not a necessity for banks like FNB having reached a certain level of asset accumulation dubbed "critical mass".

He maintained that FNB had one of the best branch networks in the country, was probably the most efficient of the big banks based on return on assets and had a good name with a solid customer base.

"For this reason there is no reason to panic but rather to seek sensible organic growth."

Swart mentioned that the group was aiming to establish itself in Africa and was planning on setting up a subsidiary in London to complement its presence in Switzerland.

"Its all part of the philosophy of rowing the boat ourselves," he said.

NBS' director operations John Smale commented that the group has consistently stated its wish to remain independent.

"Our duty is to the shareholders, staff and clients and solid financial performance of the group requires no revision of this independent stance."

SA firms look to Gibraltar interests for route to EC

PETER GALLI 58

BD 17/2/92

THE Gibraltar government has received several inquiries from SA companies hoping to take advantage of investment and business opportunities offered there.

One area targeted for development is the banking and financial sector.

"While we have not yet been approached by SA financial institutions hoping to establish an offshore base, we are optimistic as SA banks compare well internationally," Gibraltar's banking supervisor Mike Davidson said in a recent interview.

He said SA banking and financial institutions were welcome in Gibraltar, which would give them a foothold in the EC. Tax concessions offered would be an advantage.

The Reserve Bank had to encourage external investment as this would see profits and income flow back into Gibraltar. The outflow of capital was necessary to facilitate a corresponding capital inflow , Davidson said.

Once a bank was licenced in Gibraltar, it could expand to the EC without seeking individual licences, he said.

Trade and Industry Minister Michael Feetham will lead a delegation to SA in April.

He said SA financial institutions had kept up with international developments and would easily integrate and become accepted abroad.

Banks back R80m hawker loan scheme

B10am
19/2/92

THEO RAWANA (58)

THE African Council for Hawkers and Informal Business (Achib) intends launching an R80m "micro loan scheme" for its 40 000 members, Achib president Lawrence Mavundla said yesterday.

Addressing a media briefing in Johannesburg, Mavundla said his organisation had reached agreement with First National Bank, the Development Bank of Southern Africa, Investec and Fedlife to launch the scheme which would encourage informal traders to move from hawking into serious business.

Mavundla said the banks would guarantee the loans while Fedlife and Investec would insure the transactions. He said further details would be given at the launch of the scheme this afternoon.

"After fighting for five years for the scrapping of regulations restricting the hawker, now we are able to move into financing for the informal sector.

"The hawkers, who presently need between R100 and R1 000 each to get started in business and could not get finance from banks, can now apply through Achib.

"After three years they will be able to apply for loans directly to the banks," said Mavundla.

The scheme would be extended to other areas of the country as soon as it had taken root in Transvaal, he said.

Last August it was reported that Achib Marketing, a division established by Achib in 1990, had raised about R250 000 in a capital expansion programme which involved selling shares to the private sector. Achib Marketing MD Gerhard Visser said the council was confident of meeting its target of R1,5m.

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Pam Golding takes a position in Spain

BDay 19/2/92

58

PETER GALLI

PAM Golding Properties' decision to establish an office in Marbella in the south of Spain offers interesting opportunities for the expatriate South African who is considering buying abroad.

Apart from offering prospective buyers an agency that is SA-based, the office manager, Ian Waudby, spent much of his childhood in SA.

"We are looking at offering the expatriot or person with offshore funds a feasible property alternative to the home he could buy in SA. While many of the developments cater for the second home market, they are quite suitable for permanent residence," Waudby said in an interview in Marbella recently.

The Spanish property market, like those in the rest of Europe and the US, is battling under the world economic recession and overdevelopment during the boom years of the late '80s.

Prices have fallen by about 25% on average, but buyers can pick up bargains at discounts of up to 40%.

Snapped up

"The prices are now more realistic as the boom prices were artificial and inflated. Despite the large availability of stock, bargains are being snapped up by both foreign buyers and Spanish buyers," Waudby said.

Pam Golding Properties already has sole mandate to market units to local buyers in a number of developments on the Costa del Sol, including upmarket apartments, townhouses, leisure and golfing resorts.

One such development is La Zagaleta, previously the Spanish estate of international arms dealer Adnan Khashoggi. The 1 000ha estate was sold for just more than $40m and individual plots are currently being marketed.

Only 25% of the total area will be allocated for plots, which will range from 3 000m² to 10 000m². While plot prices are selling at an average of $90/m², buyers have to purchase a share of the estate and its facilities and membership of the Club de Campo, at a price of about $300 000.

The development offers an equestrian centre and game drives and shoots, with the original homestead being renovated and serving as the clubhouse. This has facilities such as restaurants, a disco and ten pin bowling alleys.

Grupo Banco Bilbao Vizcaya (BBV), the largest property player in the Spanish market, with a portfolio of more than $1bn, also believes its developments on the Costa del Sol offer the SA buyer good value.

"Our speciality is golf courses and we have $200m worth of developments for sale, under construction or in the pipeline. We are offering two developments at present," BBV realty director general Christer Rosen said.

Aloha Gardens offered 1 345 units in three phases around a golf course set on a 200ha estate. Units are priced at between $100 000 and $200 000, with 159 out of the 240 units available in the third and last phase.

The second development, La Chinta Golf, already boasts five SA buyers, and offers 1 500 units around a 27-hole golf course. "The SA market consists almost exclusively of expatriates who seek a second home in a similar setting but in another country, or who want to retire to an area that offers easy access to Europe," Rosen said.

Spanish property players all agree the market is bottoming out, and will probably only begin to boom again around 1995.

Y J Lovell (Spain) sales marketing manager Philip Coates said 1992 would put Spain on the map as it was "the cultural capital of Europe", and hosted the Barcelona Olympic Games and Expo 1992.

"This will make the consumer aware of Spain as a feasible alternative which, combined with its excellent climate and competitive prices, should see active buying interest as soon as world economic conditions improve," he said.

Sanlam to put R20-bn into industrial growth

(58) STAR 20/2/92

Dr A J van den Berg . . . assets more than R50 billion.

By Tom Hood

CAPE TOWN — More than R20 billion is to be invested by Sanlam group companies in mining and other industrial projects that will be completed in the next five years.

This is roughly equal to the value of South Africa's annual gold production, or a quarter of the annual national Budget.

Sanlam chairman Dr AJ van den Berg said at the company's annual meeting in Bell-ville yesterday a new gold mine and expansions to other gold mines as well as platinum and coal mines were among the projects.

"Investments in ferroalloys, alloy steel, paper and wood pulp, liquid energy and a large variety of smaller industrial developments ensure that our group is well represented in the most important mining and industrial activities."

The market value of Sanlam's assets grew to more than R50 billion last year and more than 450 000 people were employed in Sanlam group companies.

Property investments in new areas of development created by urbanisation already comprised more than 100 000 sq m and they were still increasing.

Job creation

With these investments, Sanlam was fostering development and progress in neglected areas.

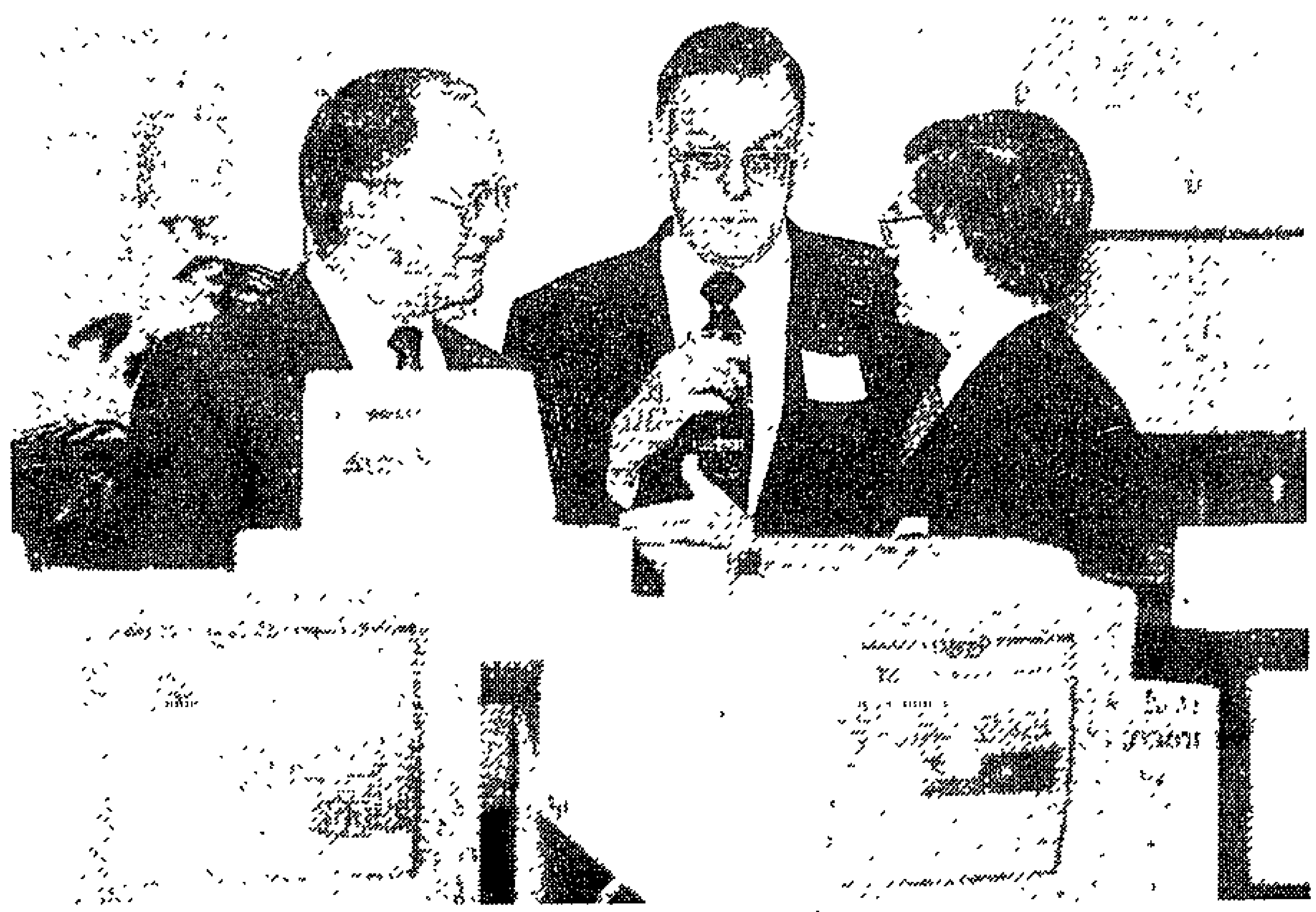
The investments showed how the premiums policy-owners were contributing to economic growth, job creation and development.

The great disparity in the standards of living of South Africans of different races and the poverty of a large percentage of the population were stumbling blocks in the path of successful constitutional reform, he said.

The key was a prosperous South Africa, for which, he believed, a market-oriented economic system, a higher economic growth rate to enable the creation of new opportunities at a faster rate, a lower inflation rate and a campaign to curb Aids were required.

Without better economic prospects for the poor and the economically deprived, no political change would be able to effect lasting peace. Political ideologies alone could not ensure economic prosperity.

Dr van den Berg made no reference to the controversial kaolin mining project at Noordhoek in the Cape that has brought widespread criticism that could hit the insurance giant's business.



First National Bank group treasurer Ken Russell, right, explains the workings of FNB's new dealing room to FNB senior GM Jimmy McKenzie, left, and FNB divisional GM Gerry Christy at the opening of Bank City yesterday. Picture: ROBERT BOTHA

FNB dealing room opens

(58)

SHARON WOOD

FIRST National Bank yesterday officially opened its treasury dealing room in the new Bank City complex. B/Day 20/2/92

At the opening ceremony of the dealing room last night, MD Barry Swart said the new systems would provide an enhanced service to the bank's clients. It would improve support systems, enabling dealers to work more efficiently.

Dealers would work on a locally developed digital Decision Support Information Platform (DSIP) system, one of about 10 in the world and the first in SA.

"The successful changeover from the old system to the new is the culmination of years of research ...

"A digitally-based facility means we are well placed to go forward for the next 10 years without major changes to the systems," he said.

The new FNB dealing room differed significantly from the old. The desktop layout did away with multiple screens, keyboards and printers and replaced them with a single keyboard driving all its systems and a single screen.

Call for major export drive

Sanlam pours R20bn into investments

B| Day 20/2/92 (58)

LINDA ENSOR

CAPE TOWN — Sanlam had committed R20bn to investment projects, the life assurer's chairman Abie van den Berg said at the company's annual meeting yesterday.

He said the capital had either been invested in recently completed projects or would be invested in projects that would be completed during the next five years. Van den Berg said the R20bn was roughly equal to the value of SA's annual gold production or a quarter of the annual national Budget. The larger Sanlam group of companies employs more than 450 000 people.

"A new gold mine and expansions to other gold mines as well as platinum and coal mines are some of the ventures involved. Investment in ferro-alloys, alloy steel, paper and wood pulp, liquid energy and a large variety of smaller industrial investments, ensure that our group is well represented in the most important mining and industrial industries."

Van den Berg said property investments in new areas of development created by urbanisation made up more than 100 000m² and were increasing.

In the year to end-September the market value of Sanlam's assets increased by 33% to more than R50bn. Investment income of R3,4bn was earned.

In his chairman's statement Van den Berg called for a greater degree of fiscal discipline. "It is essential that the rate of increase in government spending be strictly controlled and that this expenditure be financed in a non-inflationary way if we wish to prevent inflation from getting out of hand, with disastrous consequences for the country in the longer term."

It was of the utmost importance that the confidence of local and foreign investors be restored. The support of foreign investors, bankers and businessmen would be forthcoming only if the safety of capital was guaranteed, attractive returns could be earned, the tax system was fair, unrest declined and strikes occurred only within reasonable limits, and if the political system was economically justifiable.

Foreign capital would be vital to achieve economic growth and foreign support for the enormous task of social upliftment was essential, Van den Berg said. He said the achievement of a higher rate of economic growth would also require a drastic improvement in the export drive.

"What we need is a comprehensive export strategy thoroughly planned by government in consultation with the private sector, to make us far more export-orientated." Manufactured and beneficiated goods would increasingly have to replace raw materials as the mainstay of foreign earnings.

In his seconder's address Transnet MD Anton Moolman said SA would not be able to count on large-scale foreign assistance in future and would have to exploit the inherent strength of its own economy.

Government had neither the funds nor the ability to lay the foundations for the country's socio-economic future, Moolman said, and the business sector would have to assume greater responsibility.

Bankers criticise Bankorp rating

BDay 20/2/92

SHARON WOOD

COMMERCIAL bankers have criticised the A1+ short-term rating given to Bankorp this week by Republic Ratings.

Bankorp's top rating put the bank in the same league as FNB and Absa and a main consideration in the rating was the belief that the authorities would assist any big bank if it had temporary problems.

Banking sources said the rating implied that big banks would automatically be given a top rating because they would be supported by the Reserve Bank in times of trouble.

One banker said the rating had dented Republic Ratings' credibility and had surprised the industry.

But Rand Merchant Bank chairman G T Ferreira said he could not disagree with the rating because it correctly implied that any money placed with Bankorp would be safe.

"I believe that Bankorp got the rating because of the view that the Reserve Bank cannot allow them to fail," he said.

"The Reserve Bank could not afford to allow any bank of any size to go under because of the incredible inter-relationship between the banks. A failure could cause a domino effect."

No public depositor had ever lost money in any of the small bank failures, which showed Bank support would probably be forthcoming.

Ferreira suggested big banks should be given two ratings, one a clinical analysis of the bank's financial affairs and the other assuming Bank support and the right parentage.

A banker, who did not wish to be identified, said he believed ratings were important but would only be useful when all the banks were rated, providing a basis for comparison.

Only three banks of the "big five" have been rated to date, with Standard Bank and Nedbank outstanding.

Republic Ratings chairman Dave King said he believed Bankorp's rating had increased the agency's credibility. The market place was now better informed of Bankorp's short-term credit quality because the rating had been based on access to detailed confidential information.

It had been a tough decision to give Bankorp a top rating but it had been accurate, he said.

58

"Republic Rating's credibility would have been knocked if we had given it a lesser rating," he said.

The agency was considering re-evaluating the whole industry by giving banks two ratings — a stand-alone rating and one which took account of the support of the parent and the Reserve Bank.

When asked about support for the "big five", King said support was assumed in the short-term but not the long-term.

Of the three large banks rated to date, FNB had been accorded an AA long-term rating — the maximum attainable by a local bank. This showed FNB did not require support. Absa and Bankorp had not requested a long-term rating.

Softening policies 'would hurt Bank's reputation'

BDay 20/2/92

(58)

SHARON WOOD

THE Reserve Bank would probably persist with its present restrictive monetary policy because the costs of deviating from it would be too high, Bank of Lisbon said in its latest Economic Focus released yesterday.

The Reserve Bank had changed from short-term crisis management to a medium to long-term monetary policy directed at bringing down the rate of inflation.

The costs of giving up on the new monetary policy framework would include a loss of reputation and the erosion of any future ability to diminish inflationary expectations through changes in policy, it said.

The Bank faced two major difficulties in applying the new monetary policy, which aimed to create a stable financial situation within a less inflationary environment.

The first problem was the need for harmonising monetary and fiscal policies, it said. On the fiscal side, the tax system needed to be geared towards improving incentives for saving and investment.

"Making tax concessions in this direction, however, is being rendered more difficult by the pressures upon the government to increase spending in the social fields, as well as by the current slow growth in state revenues," the bank said.

The second difficulty facing the SA monetary authories was convincing people they would continue to adhere to strict monetary policies. The authorities needed sufficient credibility to successfully bring down inflation.

"If the Reserve Bank continues to adhere to its present policies its reputation could well be enhanced, so that in the future people will view its monetary policies with greater credibility, and behave more in line with the aims of such policies."

International experience showed that success in moderating inflationary pressures was a long, drawn-out process and with rare exceptions a shift from moderate to low inflation involved losses in output and employment that had stretched over years. This provided another reason for maintaining the status quo on the monetary policy front, Bank of Lisbon said.

Giant invests R20-bn in SA projects

Sowetan 21/2/92

MORE than R20 billion is to be invested by the Sanlam group of companies in mining and other industrial projects to be completed within the next five years.

This is roughly equal to the value of South Africa's annual gold production or a quarter of the annual national Budget, says Sanlam's chairman, Dr Abe van der Berg.

Speaking at the company's annual meeting in Bellville, Cape, he made no reference to the controversial kaolin mining project at Noordhoek, which has brought widespread criticism that could hit the insurance giant's business.

New

But he said a new gold mine and expansion to other gold mines as well as platinum and coal mines were some of the projects involved.

"Investments in ferro-alloys, alloy steel, paper and wood pulp, liquid energy and a large variety of smaller industrial developments ensure that our group is well represented in the most important mining and industrial activities."

Property investments in new areas of development created by urbanisation already comprised more than 100 000 sq m and they were still increasing. With these investments, Sanlam was fostering development and progress in neglected areas.

These investments showed how the policy-owners were contributing to economic growth, job creation and development.

The market value of Sanlam's assets grew to more than R50 billion last year while more than 450 000 people are employed in the Sanlam group of companies.

Poverty

Van der Berg said the great disparity in the standards of living of South Africans of different races and the poverty of a large percentage of the population, were stumbling blocks to successful constitutional reform.

The key was a prosperous South Africa for which, he believed, a market-oriented economic system, a higher economic growth rate to enable the creation of new opportunities at a faster rate, a lower inflation rate and a campaign to curb Aids were required.

Without better economic prospects for the poor and the economically deprived, no political change would be able to effect lasting peace in South Africa. Political ideologies alone could not ensure economic prosperity. - *Sapa*

Bush's nod on exports to SA 'a positive step'

B/Day 21/2/92.

SEAN VAN ZYL

US PRESIDENT George Bush's announcement earlier this week freeing the Export-Import Bank (Eximbank) to underwrite US exports to SA was regarded by the local business community as a positive step towards re-establishing trade relations between the two countries.

SA Chamber of Business (Sacob) economist Bill Lacey said Bush's announcement served as a signal to American businesses that SA was once again an acceptable market in the international trading arena.

However, Lacey did not expect the Eximbank's financial participation in US export trade to SA would result in a flood of imports. "With the present position of the SA economy, local business is unlikley to start building up inventories."

The Evans Amendment, introduced to US legislation in 1978, barred the Eximbank from participating in export deals to the SA government or its parastatals until the US President certified to Congress that "significant progress towards the elimination of apartheid has been made".

Safto senior manager, international division, Mike Veysie said increased imports to SA would be determined also by the country's needs and its being able to afford imported goods. Furthermore, Bush's authorisation of the Eximbank's participation mostly benefited US firms as the bank's financial guarantee applied only to one-way trade from the US to SA. As a result, US firms would not able to rely on the Eximbank for financial guarantees on goods imported from SA.

However, SA's indirect benefit from Bush's decision would be cheaper access to imported capital goods, aircraft and machinery.

Although the Eximbank's participation in US-SA trade was unlikely to significantly boost trade volumes, Veysie said, it was "a positive step" which could in the long run promote increased two-way trade between the two countries.

American Chamber of Business of SA executive director Michelle Cohen said the move would also allow SA greater access to new technology previously denied by sanctions.

CCB's financial situation stays under wraps

LINDEN BIRNS

AUDITOR-General Peter Wronsley declined yesterday to detail the financial situation of the Civil Co-operation Bureau (CCB), an SADF covert unit in the throes of being disbanded. B/Day 21/2/92

He said he was barred from commenting on the issue in terms of Section 6.3(a) of the Auditor-General Act and an agreement between himself, President F W de Klerk and Finance Minister Barend du Plessis

On Wednesday Wronsley told Parliament former Defence Minister Gen Magnus Malan and Du Plessis had authorised payment of more than R28m to the CCB during the past two years.

Yesterday he refused to say whether further payments were being made to the CCB. The R3m pension given to one former CCB member was a problem for the insurance company concerned and not the Defence Ministry, he said.

Investment returns of trust 17,8%

LINDA ENSOR

CAPE TOWN — The Independent Development Trust (IDT) had achieved an average return on its investments of 17,8% since August 1990, IDT communications director Jolyon Nuttall said yesterday.

Nuttall was commenting on a note in Auditor-General Peter Wronsley's report for 1990/91 — tabled in Parliament this week — which said IDT trustees had not formally minuted the criteria used to select the initial seven portfolio managers. The managers were given responsibility to invest the R2bn granted to the IDT by government.

Nuttall said the overall return achieved had been very good. B/Day

Portfolio managers selected were FNB, Rand Merchant Bank, Senbank, Standard Merchant Bank, Volkskas Merchant Bank and Syfrets Managed Assets. 21/2/92

The Auditor-General's report also noted that no certificates had been obtained from the institutions to the effect that no commission on the investments had been paid to intermediaries Each portfolio manager had, however, submitted a certificate in this regard.

Nuttall said there were practical difficulties attached to getting certificates, but stressed that no commissions had been paid

FEDSURE/INVESTEC FM 21/2/92

No concert party

58

The Securities Regulation Panel (SRP) request to Fedsure to make a standby offer to minorities after its share swap with Investec (*Fox* December 20) has nothing to do with a transaction earlier this year involving UAL and a 16% shareholder in Fedsure.

The SRP's Doug Gair says that transaction — when UAL placed 7,4m shares with institutions — must be treated in isolation. Also, UAL was not considered one of a concert party and because the shares were less than 30% of Fedsurc, it was not an "affected transaction."

UAL underwrote the placing for 800c cash a share, the price at about the time the Fedsure/Investec deal was announced.

Under the standby offer, minorities can receive about 40 Investec shares for every 100 Fedsure.

There is no obligation to make a cash offer, but UAL's Leon Liebenberg says minorities can sell on the market if they wish. Fedsure is now 810c, Investec 1 950c.

It is unlikely smaller shareholders would get the same treatment as an investor holding 7,4m shares if they wanted to cash in. But at the current price, they could, at least in theory, get a better price in the market.

Fedsure CE Arnold Basserabie says indications are that few, if any, minorities will take up the standby offer. He also points out that the current price, if anything, reflects satisfaction among shareholders. "The SRP wanted the standby offer because of the enhancement of Fedsure's control. It had nothing to do with the UAL placing."

Liebenberg says UAL made full disclosure of the placing to the SRP and was told there were no problems. *Shaun Harris*

SANLAM

The wheat from the chaff

FM 21/2/92

(58)

Absa's takeover of Bankorp continues to raise more questions than it answers. Among them: will Sanlam revert to public company status and seek a listing on the JSE? And will CU Life and Sage come together.

These are scenarios being discussed in the life assurance industry. Sanlam deputy chairman Pierre Steyn says only that the mutual is "looking at pros and cons of various alternatives" and insists there is no desire on Sanlam's part to demutualise.

As the dust settles, it's clear Sanlam did well to rid itself of a troublesome banking arm, on terms which may or may not have included the Reserve Bank sweetening the deal for Absa. It may be that accepting Momentum Life in return was the price Sanlam had to pay — though it could be argued that removing an essentially Afrikaans-orientated life office from Absa was also sound strategy.

Having acquired Momentum, it could put it to good use. In the various scenarios being propounded by Sanlam's competitors, one is that Sanlam will use Momentum or the Metropolitan to reverse into a JSE listing. It certainly does not need to come in via its subsidiaries but, using an existing listed vehicle would be cheaper. The process for demutualisation is now clearly mapped by the ex-building societies and by Southern but the routes already pioneered are expensive.

Sanlam may see a listed company as more defensible against nationalisation. History to the north has shown mutuals more vulnerable because they are without shareholders. The World Bank and IMF would certainly prove unfriendly to a government which grabbed a major corporate life office.

The argument for listing could apply equally to market leader Old Mutual. Both Old Mutual and Sanlam are established by Acts of parliament. Any future government could repeal or amend those Acts, to the point of packing the boards with nominee directors — nationalisation by another name.

Steyn disputes this argument. But, he says, "the fact is that in a mutual association the policyowner is the member just as a shareholder is a member of an ordinary company. Government can attempt to assume control of a company or an association whether it is a mutual or an ordinary company by a simple and uncomplicated legislative intervention depriving members of their right to appoint the directors of the enterprise — with or without compensation."

If Momentum is to be used as a listing vehicle, shareholders can hope for more than stability within the Sanlam umbrella, though that would itself be a welcome relief from the turbulence of the last few years which have seen ownership of the major assets undergo two name changes (from L&GV and Lifegro). But there could be even more interesting times ahead.

Momentum is the fifth largest life office and, despite its chequered history, is not a chip to be lightly tossed around. It is known that during its brief stay in the Absa stable, there were talks with Sage Life. But Momentum MD Neil Krige says neither Momentum nor Sage would have been willing marriage partners. Sage sources agree.

Culturally, Momentum might seem more comfortable with Sanlam as the parent. Afrikaans-speakers are well represented in top management, though Krige points out that staff in the important employee benefits division and many people in the field force tend to be English-speaking. But the situation cries for rationalisation.

Sanlam, which controls the Metropolitan (catering for the blue-collar market) now has Momentum, a company which meets it head on in its own marketplace. Krige points out that Old Mutual and its associates Syfrets and UAL all compete for the same corporate funds. But life assurance — specially within the aggressive Sanlam culture — could be a different matter. Both Sanlam and Momentum have targeted the same type of individual life clients and both compete in the employee benefits business.

The pervasive Rembrandt influence is also a consideration. The Absa-Bankorp deal suggests that some old sores have healed and that Rembrandt and Sanlam can now do major business together.

Rembrandt recruit

Also, Krige was a Sanlam executive, later recruited by Rembrandt, then sent to Momentum at about the time of the merger with Lifegro. There are several other ex-Sanlam men in the Momentum team.

Other results of the meltdown at Bankorp affect the remaining life interests of Absa, with speculation on whether Sage Life and CU Life will get together. Whatever happens at the top of the league, a shake-up in the middle ranks of the life offices seems inevitable.

Absa is left with its indirect stake in Sage Life and a direct 30% of CU Life. Put together, these companies would make up the sixth largest life office. CU Life (indeed, the whole Commercial Union Group) is known to be interested in growth by merger or acquisition. Sage, having lost MD Morris Bernstein to Fedlife and with Louis Shill daily more engaged in other affairs, is thinly stretched for management flair. Privately, executives at both CU and Sage agree their cultures are compatible. Also, they say, it's unlikely Absa will want to continue with a muddled portfolio of life assurance interests. ■

INSURANCE FM 21|2|92

Wild business (58)

Small insurance companies are increasingly selecting niche markets in which they can become dominant. Stangen has just launched a comprehensive package developed for the wildlife management sector.

Stangen GM Paolo Cavalieri defines wildlife management as the breeding of rare species, game viewing and hospitality services, trophy hunting and venison production. The company has, in association with MIB Wildlife Broking Services, put together a package covering transit of animals, legal

FM 21|2|92 (58)

liability, animal capture and mortality insurance.

Legal liability to third parties can be covered where the liability arises from accidental death, injury or damage to property involving dangerous game. The cover extends to the area within a reserve or farm, or further afield in the case of a break-out.

Cavalieri says Stangen intends to establish a leading position in a number of specialised fields. To underwrite such risks successfully involves retaining experts in that field. MIB Wildlife's Brian Courtenay is therefore retained to evaluate every wildlife risk offered for insurance. ■

LIFE ASSURANCE FM 21/2/92

Which figures? (58)

The Total new business attracted by Liberty Life and subsidiary Charter Life in the year to December amounted to R1,1bn — an increase of 18,5% on 1990.

Though the figures look good, joint MD Dorian Wharton-Hood believes they present a misleading picture. He would be happier if the formula for adjusted premium income was recognised by local life offices, when the true bottom line would read R544,5m.

The trouble is, he says, all life assurers try to present their figures in the most favourable light, so they lump single premium and recurring premium business together. "It does not make sensible analysis easy."

When Liberty mounted a roadshow in the UK last year — which attracted £82m — to strengthen the group's offshore operations without draining local capital, the way in which new business was presented was critical, Wharton-Hood says.

The formula for adjusted premium income is 100% of recurring premiums plus 10% of single premium business written. Last year, in Liberty-Charter's case, single premium income amounted to R621,2m and recurring premium business to R482,4m.

"To use the adjusted formula for comparison makes sense. Recurring premiums arrive annually for an average of 10 years. They should, therefore, be given a weighting of 10 times single premiums, on which we make money only once."

The group's individual recurring premiums were up 24,3%, an unusual level in times of recession. According to Wharton-Hood, a major contributory factor was the launch of Medical Lifestyle products in the second half of the year, which, by year-end, had attracted more than R60m. ■

INSURANCE FM 21/2/92

Consumer excesses (58)

Consumer protection clauses, written into the latest draft of the Long-Term Insurance Bill, have startled the life offices. Some of the measures are said to be "a potential nightmare" and "handing draconian powers to the Financial Services Board (FSB)."

As a general principle, members of the Life Offices Association (LOA) have no objection to consumer protection being legislated, though some feel the existence of an industry ombudsman is enough.

There was some surprise when protective clauses did not appear in the previous draft, one of several phases in developing the new legislation. Their re-introduction, with additions, will lead to lively debate between the industry and the FSB.

The FSB says the consumer clauses could be altered before the Bill is enacted: "It is a question of striking a balance between free market principles and consumerism. We trust the final enactment will achieve this."

In draft Section 50, an assurer is obliged, within 45 days of an accepted proposal, to deliver the policy, together with a copy of the proposal. Under separate cover, the assurer must send notice that the proposal has been received, accepted and the policy issued. Included in this package, the life office must draw the policyholder's attention to the right to cancel or withdraw from the contract.

Draft S51 gives "a person" who has offered to buy life assurance the right to withdraw or cancel within 21 days of receipt of the policy.

Old Mutual legal services manager Abri Meiring says this could encourage "policy-hopping" which is practised by people who need high cover for short periods.

Draft S55 is the most severe, from the assurers' point of view:

- No assurer may cancel or avoid a contract on the grounds of non-disclosure or misrepresentation by the proposer, unless the proposal was made fraudulently. Even then, the life office would have to prove it would not have entered the contract had it known the true facts. So fraud alone is no reason for the office to repudiate;
- If an assurer cancels a contract, it must repay all premiums;
- However, the assurer may elect to keep the contract in force, but reduce the amount of benefit to that which would have applied had all the facts been known; and
- The Registrar of Long-term Insurance may, notwithstanding a reduction of benefits, cancellation or avoidance by the assurer, decide the action is not justified and direct the assurer to adhere to the original contract or to an amended version of the contract.

It is the power handed to the Registrar which the life offices can be expected to contest vigorously.

Southern Life's Ockert Fourie thinks the proposed measure "amounts to interference in a fundamental right of contractual freedom and erodes contractual certainty with no apparent recourse to an independent court of law. It means there is no binding contract between the life assurer and the policyholder. The Registrar dictates the contract."

Meiring suggests the measure emasculates the life industry's ombudsman, whose powers are not nearly so embracing. The ombudsman makes recommendations, which are usually accepted, in dispute cases. He cannot enforce his views.

Also, Meiring says, the clause enforcing the repayment of premiums is "unthinkable, going to the heart of the life assurance business. It is an open invitation to the proposer to be dishonest because the very worst that happens when he is found out is that he gets his money back."

The FSB says it values the role of the ombudsman but "he is bereft of powers to intervene significantly and lawfully should circumstances justify it."

There are other aspects which will be more popular with the consumer than the industry. A cooling-off period is considered wise by many assurers, who find it costly to have a high lapse rate. But there will be no enthusiasm for the clause which compels them to draw attention to consumer rights under S51. "It amounts to: your policy is in the mail, please cancel," Fourie suggests. ■

Southern Life reports big portfolios returns

STAR 22/2/92

(58)

PENSION and provident funds invested in Southern Life's market-linked portfolios gained from the strong performance of the JSE and achieved excellent returns ranging from 35,5 percent to 48,2 percent for the year to 31 January 1992.

Annual yields on lump-sum investments ranged from 35,5 percent on the R2,75 billion Managegrowth Portfolio, to 38 percent for the Unique portfolios, and from 43 percent for Southern's High Opportunity Portfolio (Shop to 48,2 percent on the all-share Equigrowth Fund.

General manager (investments) Paul Beachy Head, said the performance of all four funds reflected the success of Southern Life's equity strategy of being fully invested in quality shares.

He said the variations in performance were due to the different client requirements for the four products.

Industrial shares

"Shop and Equigrowth clients, for example, have a higher performance volatility tolerance because of their different liability profiles and hence a greater exposure to shares," said Mr Beachy Head.

Compared with the inflation rate of some 16 percent for the period, these yields provided substantial real returns for investors — more than double in the case of the diversified Managegrowth fund, while the Equigrowth return was more than three times the rate of inflation.

Mr Beachy Head said South African industrial shares had been influenced by two main factors over the past year.

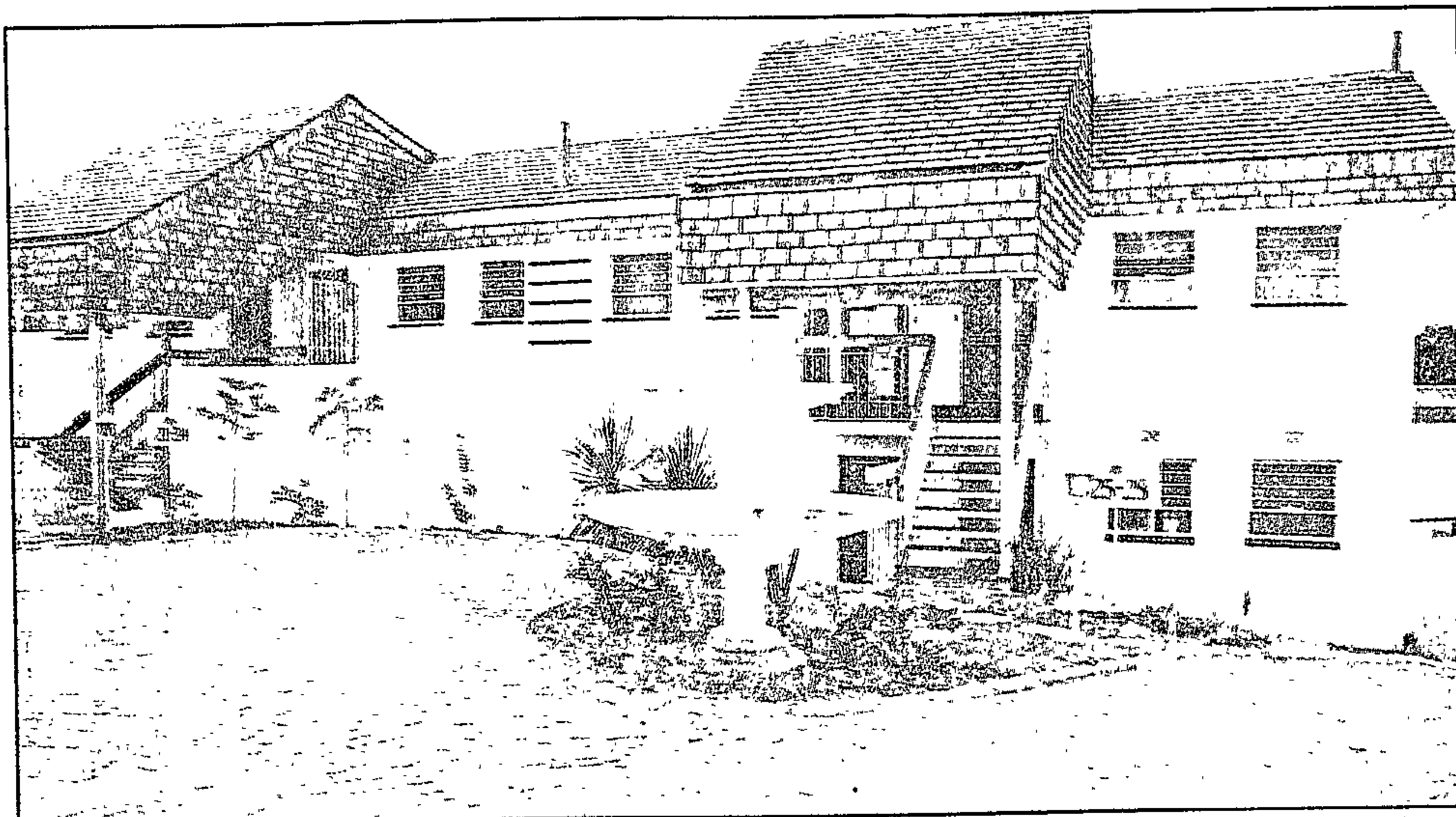
"Firstly, Wall Street reached record levels as a result of the global victory of capitalism and declining US short-term interest rates.

"Secondly, our domestic political process was perceived to improve the long-term economic prospects of the country," he said.

Southern's fund managers correctly anticipated both these factors, and as a result their strategy proved highly successful, said Mr Beachy Head.

He cautioned that "the rate of growth of industrial shares is not sustainable at the present high levels.

"However, continued disciplined adherence to our proven investment philosophy will continue to generate above-average returns for our pension and provident fund clients," he added.



HIGH STAKES: Your house is your biggest asset and when the chips are down and you cannot meet payments, it is not necessary to lose it. A building society can implement a last-ditch rescue effort.

There's still hope when crunch comes

STAR 22/2/92 (58)

HOUSE owners were given a shot in the arm last week with the announcement of a cut in mortgage rates from March 1. But for some the relief will be only temporary and the spectre of instalment default and subsequently losing their homes still looms large. YOUR MONEY asked NBS assistant general manager Mr Trevor Olivier to comment on the mortgage crisis facing South Africans.

HOW many houses are repossessed every year?

There is no national figure available, but many more properties have been repossessed in the past couple of years. On a national basis, the NBS repossessed between 600 and 800 houses.

The reason for the increase is the addition volume of lending. Financial institutions are doing an enormous amount of lending.

The competition from banks has created many difficulties for the traditional house lenders because the banks have taken a "banking" line on loans and have made home ownership more accessible.

We have had to amend our tried and tested procedures to meet that competition. The result has been an increases in repossessions. But seen against the background of the large number of new loans granted, repossessions are a tiny proportion.

Who is being hit?

There is an across-the-board profile of people affected — from the lower-income groups through to the higher income. The unemployment problem has been the single biggest factor.

When will a house be repossessed?

That depends on individual circumstances. At the NBS, we look at each account every month. If the instalment set — which is based on a repayment term at a certain interest rate — is not paid, we send out a reminder notice.

If a house owner walks in and says, "I can't pay — here are the keys," we suggest selling the property and other options and if this fails, we institute legal action.

What alternatives are there?

There are several:

- In an "advance" situation, where excess amounts have previously been paid into the account, it is possible to skip instalment.
- If there is sufficient margin between the balance owing and the value of the property, another alternative is to register a further bond to cover the arrears.
- Extending the term of loan can make a difference, but a negligible one. For example, over 20 or 30 years, on a R100 000 loan, it is about R30 a month.
- Asking your employer for help in advancing funds against pension assets or from accumulated leave.
- Cashing in on insurance policies with surrender value, using them as collateral security or borrowing against them to pay the arrears.
- Paying interest only for a while.
- Using the government deferment scheme that provides the financial institution with a guarantee and allows a repayment based on a 17 percent rate.

What about other debts?

Pay your house loan first. The cost of acquiring and then losing your house is very high. Other movable assets are not inflation-linked in the way that your house is.

Many defaulting house owners stay on as tenants.

That is a possibility if we can't find a tenant, but it seldom happens.

What happens to repossessed houses?

The financial institution becomes the owner after the "sale in execution" and has to manage the upkeep. An effort is then made to sell the property on the open market.

Who is responsible for the upkeep of repossessed houses?

The lender.

If your house is sold for less than your mortgage, are you still in debt?

Yes — there is a personal obligation by the borrower. We try as far as possible to collect that money, because it is unfair to borrowers, investors, shareholder and other house owners to do otherwise. The "lost" money has to be absorbed into our costs, which would ultimately impact on margins.

FOOTSTEPS
TO FORTUNE

RICHARD
Cluver

Property has not lost its gilt edge

STARTING today in Your Money is the column of yet another top financial writer, RICHARD CLUVER. He is the author of several best-selling books on investments, including "Making Money with the Mutuals", "Investments Without Tears and his latest, "How to Make a Million". STAR 22/2/92

PROPERTY has traditionally been the solid sheet anchor of all sound investment portfolios. Sadly and, in my opinion, quite unjustly, its credentials have been allowed to become a little tarnished because the average investor seems to have lost perspective

The dramatic capital gains that are possible in the share market have understandably eclipsed the steadier returns that the property market as a whole provides. But to focus on just this comparison is to effectively ignore how profitable property can be, particularly in some specialised and tailor-made situations.

Probably the most profitable situation that the small investor will ever encounter is the opportunity that property offers him to leverage his investment; to make a relatively small sum of money do the work of a large sum and to reap the proportionally increased benefits.

Let us take the simplest possible example of the would-be buyer of a plot of residential land who, lacking the necessary capital to either buy the land or even put down a deposit, persuades the owner to enter into a "suspensive agreement" with him

The usual form of such agreements is that a contract is drawn up in terms of which the buyer undertakes to come up with the full capital amount within a stipulated period, usually about three years, and in the interim undertakes to pay interest at a building society mortgage-related rate and to meet any other costs that might arise, such as municipal rates and weed-clearing.

If the buyer is fortunate, the seller might accept no deposit at all or perhaps just enough to meet the selling agent's commission. If he is doubly-fortunate, or astute enough to have picked the right plot in the right area at the right time — if, in other words, he has been able to anticipate a rapid rise in property prices over 12 months or so — he is in a position to make a major financial killing.

To understand why requires that one first understand a little about the market forces that drive property.

Increasingly anxious

Prices can remain absolutely static for months and sometimes even for years on end and indeed even fall as some owners become desperate to get their money out In real terms of course, in an era of high inflation, prices that remain static are actually falling all the time.

Which is another reason why many owners can be persuaded to effectively finance you, the would-be buyer If, in other words, they want to sell, they will become increasingly anxious as time goes on as they realise what inflation is doing to market prices.

Locking themselves in for a further period of inflationary erosion might appear foolish, but it will often appear the lesser evil if it will tip the balance and result in a sale for a property owner who has been sitting and for a buyer for years.

Property market doldrums do not, however, last forever, and can double or even treble seemingly overnight

Over time, of course, an average line drawn through such a graph of property prices should at least equal the inflation rate and, provided the land is well sited, should actually exceed it.

So, if you have time on your side, you can be fairly certain of winning with most property investments. Indeed, one of the centuries-old millionaire maxims is that you should buy on the outskirts of the city and wait for the city to expand out to you. To which I would add the rider that you should be prepared to buy the best when you opt for the outskirts of the city, for it will appreciate the most when neighbourhood prices begin to soar.

Back now to our suspensive buyer. Let us assume that against an asking price of R50 000, he is able to persuade the seller to take a deposit of R2 000, that he agrees to pay interest at 20 percent a year and rates of R500.

Add those up and you will find that his outlay in the first year is R12 100. Now assume that at exactly the 12-month point he is approached by a cash buyer who offers him twice the original asking price. He agrees and receives R100 000 out of which he pays off the R48 000 outstanding on his original suspensive purchase of a year previously and pockets R52 000. His gain, after subtracting his total outlay of R12 100 is thus R39 900, which represents a capital gain of 329,75 percent in one year

Conventional deal

Assuming that his official intention when he made the purchase was to acquire a site for a future home for himself and that, officially at least, his was not a speculative intention, he will not be taxed on the transaction

Readers should thus recognise a nearly unbeatable capital growth rate has been achieved.

The more conventional building society bond-financed deal brings with it higher initial costs as the price of greater peace of mind, but if you stop to think about it, similar leverage will work to your benefit over time as the capital value of the property grows.

Of course, if you intend making a habit of such suspensive investments, you must expect that sooner or later the Receiver of Revenue will label you as a trader and demand his share of your profits. Furthermore, you also have to recognise that residential property often lies in the doldrums for years during which the original costs of your investment will continue rising, negating the 2.29 to one leverage of the example I have given.

Indeed, be warned that if you do not get your finesses right, the leverage could work against you if, for example, in deflationary market conditions you were obliged to sell for less than your original purchase price.

● "How To Make a Million", "Making Money With the Mutuals", "Investment Without Tears" and "Advertising for Free" are available from The Promotions Department, The Daily News, PO Box 47549, Greyville 4023.

They are priced at R40 each inclusive of postage and VAT. Demonstration disks of his ShareFinder sharemarket analysis computer programmes cost R35

HOMES: *Clarifying of loan mysteries urged to cut repossessions among blacks*

Call to educate owners

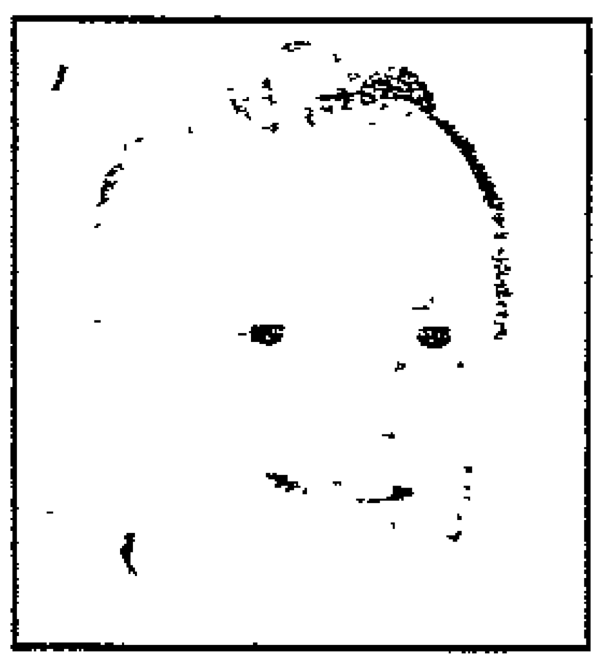
STAR 22/2/92 (SB)

STRINGENT efforts are vital to overcome Third World distrust of the intricate mechanisms of housing finance, says a property executive.

THE ever-increasing number of sales-in-execution of homes in many black communities is reaching alarming proportions and must be addressed, Mr Piet Hamman, chairman of De Huizemark, said this week.

Many financial institutions had erred in loaning money to a Third World community on the premise that First World principles applied to both black and white, he said.

Two industries serving the black community, retail furnishing and retail clothing had, initially, both experienced great difficulties.



PIET HAMMAN: "Give rewards for good track record."

A long process of education and awareness, however, turned the two industries into sparkling examples of how First and Third World philosophies could mesh, said Mr Hamman.

These industries had succeeded in explaining the credit system to purchasers.

"The client makes his payments every month and sees his indebtedness reduced and, finally, the account is paid off," said Mr Hamman.

"If the client pays well, his credit rating is increased and he is able to buy more goods. Once he has had his second or third account, there is a chance that he can buy without a deposit. He is rewarded for proper performance.

"But the person who wishes to acquire his first home isn't shown an invoice. If he has bought a flat for R30 000, he is told that he must pay a deposit of R3 000, legal fees of R600, rates and taxes of R200 and transfer duty of R200.

"He is then told that at 20 percent interest rate he will have to make 240 instalments of R509, meaning that he would pay R122 316 for his property.

"He receives the first instalment from his financial institution, which looks something like this:

Balance outstanding. R30 000; Payment: R509; New balance R29 491; Debt interest: R500; Subtotal. R29 991.

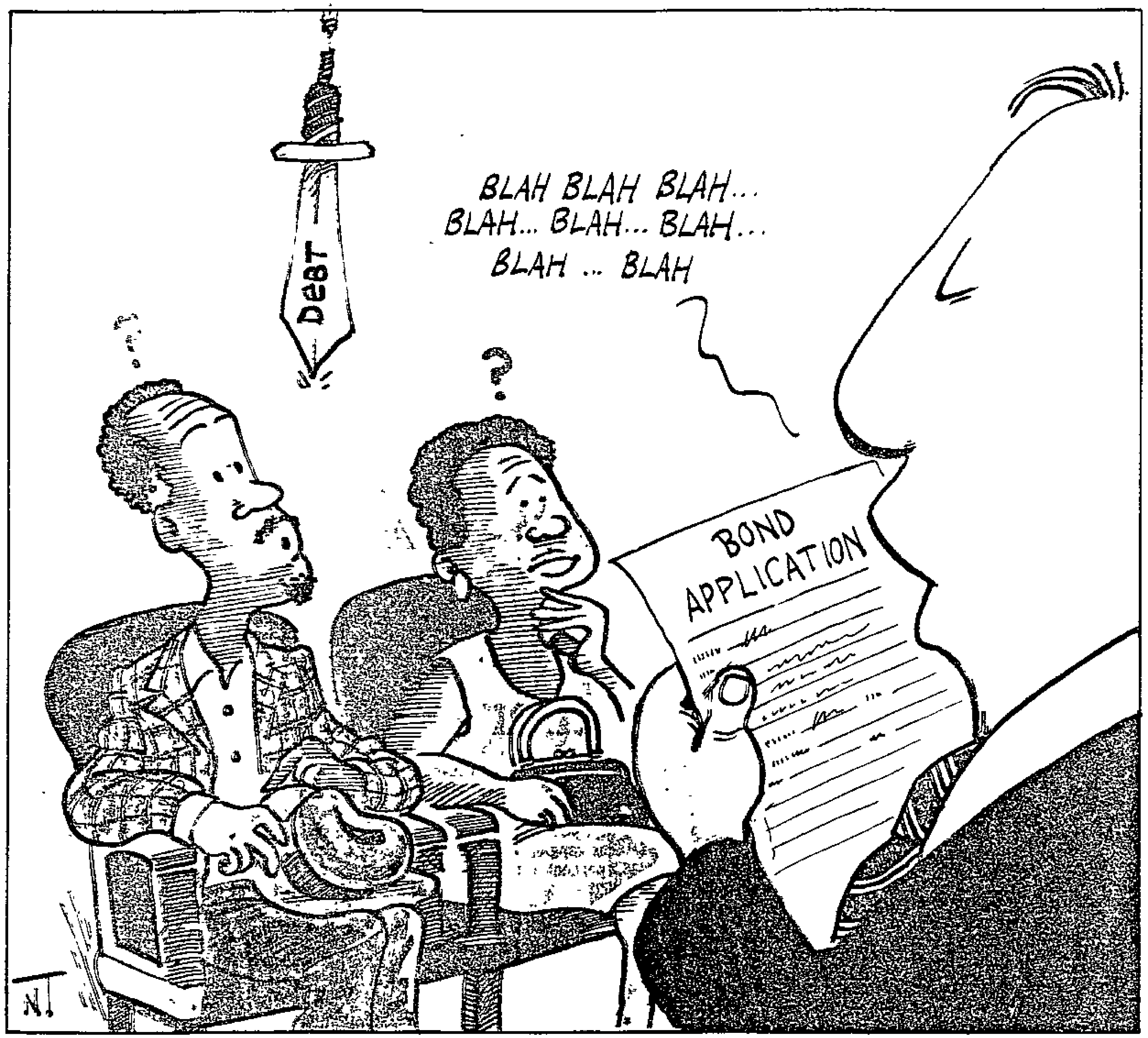
"The owner can't understand this. He has paid R509 and the balance has only come down by R9. He believes that someone has stolen his R500.

Maintenance

"He needs to be educated and shown that one day he will make a profit. It may well be the first time that he has bought anything that will increase in value with time.

"He must, at the same time, be educated on standards of maintenance and appropriate numbers of residents per dwelling," Mr Hamman said.

"An environment must be created in which rewards are given for regular payment of instalments. Vouchers, lucky draw cards and newsletters could help to create an aspirational environment where people cherish and maintain their properties.



Some industries had succeeded in explaining the credit system to purchasers, says Piet Hamman, chairman of De Huizemark. "The client makes his payments every month and sees his indebtedness reduced and, finally, the account is paid off."

MORTGAGE CRISES: *What happens when you face repossession?*

Banks coin it on wider margins (58)

S/Times (Buss) 23/2/92.

By CURT VON KEYSERLINCK

POLITICAL uncertainty and the Reserve Bank's strict monetary policy will help commercial banks to make record profits this year, say analysts.

High overdraft rates and doubts among businesses about the advisability of expanding operations have dampened demand for loans. This has reduced the banks' demand for funds, enabling them to reduce interest rates paid to depositors.

They have not matched these reductions with corresponding drops in the amount they charge borrowers.

Example

Mortgage bond rates have fallen. Bankers' acceptances are 1,1% below the bank rate of 17% set by the Reserve Bank. But that lending is a relatively small proportion of the assets of First National Bank and Standard, for example. It has little effect on banks' average lending rates.

Margins between average borrowing and lending rates have risen dramatically.

Many bankers are also betting the Reserve Bank will reduce interest rates next month. That will more than compensate for any losses suffered through bond and BA rate reductions.

But some argue that Reserve Bank Governor Chris Stals will want to see at least two consecutive months of lower inflation before he moves.

An analyst says: "Banks' margins are the best in 10 years.

"They more than compensate for negative factors. Growth in lending and borrowing is slowing, provisions for bad debts are rising and inflation is raising administration costs.

"In spite of this, I believe that bigger margins will raise banking profits by 15% to 18% this year."

David Southey, analyst for stockbroker Edey Rodgers, says: "Banks are making super margins and it is a function of monetary policy.

"We believe bank-sector profits will be 17% to 18% higher this year. Industrials should rise only 8% or 9%."

He makes one proviso: "Banks have made good provision for bad debts. But the number of bad debts of less than R500 000 is by far the highest ever. Nobody knows how much worse they will get."

Mr Southey says the market has discounted banks' higher profit expectations. But bank shares would be a good buy if the recession — it should be at its low point now — were to continue for much longer.

He says banks always do well in recession (see graph).

Prime

Another analyst says: "I do not believe that a one- or two-percentage point drop in the interest rate, which is what we are likely to get, will be enough to start an economic recovery.

"Prime overdraft was above 19% for 22 months in 1984-1985. It had to fall to 12% before the economy took off again. This time it has

● To Page 3

S/Times (Buss) 23/2/92

● From Page 1

Coining it (58)

been more than 19% for 33 months. That is slow poison for business."

The Reserve Bank is having to increase its efforts to drain liquidity from the money market. It does so by issuing various types of Treasury bills which banks buy because of their attractive yields.

The value of Treasury bill issues was R3,1-billion in December and R4,1-billion in January. Treasury bill issues for February as of the end of the week amount to R3,7-billion.

Zambia offering SA rich rewards for aid

By Derek Tommey STAR 24/2/92

SA stands to gain huge benefits from helping Zambia overcome its problems.

The message was driven home by Michael Sata, the Zambian Minister of Local Government and Housing, in a weekend interview.

He said Zambia wanted to build a million houses a year and planned to denationalise everything the Kuanda Government had nationalised — which amounted to 80 percent of the economy.

When Mr Sata arrived in Johannesburg last Monday hardly anybody had heard of him. But after a series of whirlwind visits to businessmen he had become the talk of the town.

Mr Sata signed two "memoranda of understanding" while here.

One was with Murray & Roberts, which was attracted by the plan to build a million houses a year. However, Mr Sata also paid a visit to LTA.

The second memorandum was with Investec Bank. It provides for the investigation by Investec of restructuring existing government debt, the provision of finance for infrastructual development and the privatisation of government-owned enterprises.

What is likely to be of great interest to South Africa will be the fate of Zambia Consolidated Copper Mines (ZCCM).

Reports from Zambia say it is likely to be split into its previous constituents — Nchanga Consolidated Copper Mines and Roan Consolidated Copper Mines — before being privatised.

The new Zambian government, which assumed power only last November, is under pressure to start delivering a better standard of living for its seven million people.

Unless it does so quickly it runs the risk of being dumped itself.

One of its top priorities must be to restore a greater degree of efficiency to the mines. So it seems that privatisation is not far away.

Since the beginning of November representatives of several major SA and foreign mining houses have been looking at the mines.

At the moment the hot favourites to take them over are Gencor and Anglo American.

Gencor was invited by former President Kenneth Kaunda last August to make a study of the mines. Anglo, through Zambia Copper Investments (ZCI), has a 27 percent stake in ZCCM.

However, neither of these, nor any other company, is likely to rush in blindly.

Any improvement in the efficiency of the mines will require heavy capital investment, not just in the mines, but in Zambia's infrastructure. Moreover, the groups will want some guarantee that they will get back this money.

Some of the problems facing the mines were highlighted in the last ZCI annual report.

Production was hit by a shortage of trucks and mining and mobile equipment spares caused by a shortage of foreign exchange.

A shortage of locomotives and other problems on the rail network affected movements of copper and inter-mine metallurgical materials.

On top of making good these deficiencies, any new owner would have to tackle the unions which, with government help, have secured a privileged position for their members.

Some guarantee would probably be needed against a change of government in Zambia not leading to re-nationalisation.

The bad decline in efficiency at the Zambian mines after the state take-over is probably one of the reasons why foreign investors are concerned at the prospect of any similar nationalisation moves in SA.

With better times on the copper belt possibly just around the corner, Zambian ZCI shares have risen from 64c to 110c.

They are, however, a long way below their 1989 peak of 230c.

Sanlam urges aid for farmers

STAR 24/2/92

Sanlam has called for a special assistance plan to counter the disastrous effects of the drought.

Without a thorough long-term plan, says Sanlam chief economist Johan Louw, the serious consequences of the drought will also impact on food supplies, employment and on the balance of payments.

Sanlam has already announced its own measures to assist farmers.

These include drastic cuts in the assurance premiums paid by farmers for the duration of the drought — while levels of cover remain the same.

In his economic survey for February, Mr Louw also deals with the Minister of Finance's annual budget.

He concludes that Minister Barend du Plessis will have little opportunity to decrease taxes.

Sanlam estimates that Government income from taxes will rise by about 13,5 percent in the 1992/93 financial year, while the Minister will budget for increased expenditure of roughly 12,5 percent.

This is lower than the expected inflation rate because of attempts to control expenses.

The net result will be a fairly large budget deficit of around R15,6 billion, or about 4,5 percent of GDP.

If Mr du Plessis does intend to lower some taxes, Sanlam says, it simply means he will have to raise other taxes.

Mr Louw's expectations include:

- A drop in the top marginal personal tax rate from 43 to 42 percent. Rates at lower income levels may also be decreased — but not enough to counter fully the effects of inflation (bracket-creep).
- An increase in the fuel-price levy, meaning more expensive petrol.
- No increase in the VAT level.
- Increased excise duties.
- Although the Government wishes to scrap the import surcharge, Sanlam doubts that the Minister can afford it.
- No change in company tax, but an extension of investment allowances.

Sanlam expects the Budget to be mildly stimulatory. — Sapa.

Mixed results from Picardi

Finance Staff

The Picardi group produced mixed results in the six months to December, with Pichold pushing up earnings a share 50 percent to 120c, while Picapli's earnings were barely changed at 27,5c (27,1c) a share.

Picbel, which has cash resources of R7,5 million and holds 69 percent of Pichold, lifted share earnings to 122c from 85c.

Chairman Jan Pickard, sen, says improved efficiency and lower interests costs offset Picapli's 13 percent drop in turnover due to product rationalisation and lower consumer spending. But higher tax resulted in barely maintained earnings.

R18m deal lifts Fedsure's Intrust stake

MATTHEW CURTIN

INDEPENDENT insurer Fedsure has increased its stake in Investec Investment Trust (Intrust) from 25% to 48% but merchant bank Investec remains Intrust's controlling shareholder with a 49% holding.

BDay 24/2/92

The change is the result of an R18m deal announced at the weekend in which Intrust increased its holdings in the Fenner Group, Fedsure and Bidvest, involving the issue of 802 308 new shares at R23 each.

158

Shares in Intrust, which were reverse listed on the JSE in 1990, closed untraded on Friday at R19,50.

An Investec spokesman said although Fedsure's shareholding had increased, it remained in control of Intrust and the Securities Regulation Panel had ruled that no offer to minorities was required.

THE WEEK AHEAD by Simon Willson

New M3 range could be set within weeks

BDay 24/2/92 (58)

REFERENDUM considerations may interfere with the timing of the Budget, but the setting of a new guideline range for M3 is likely to go ahead in the next three weeks.

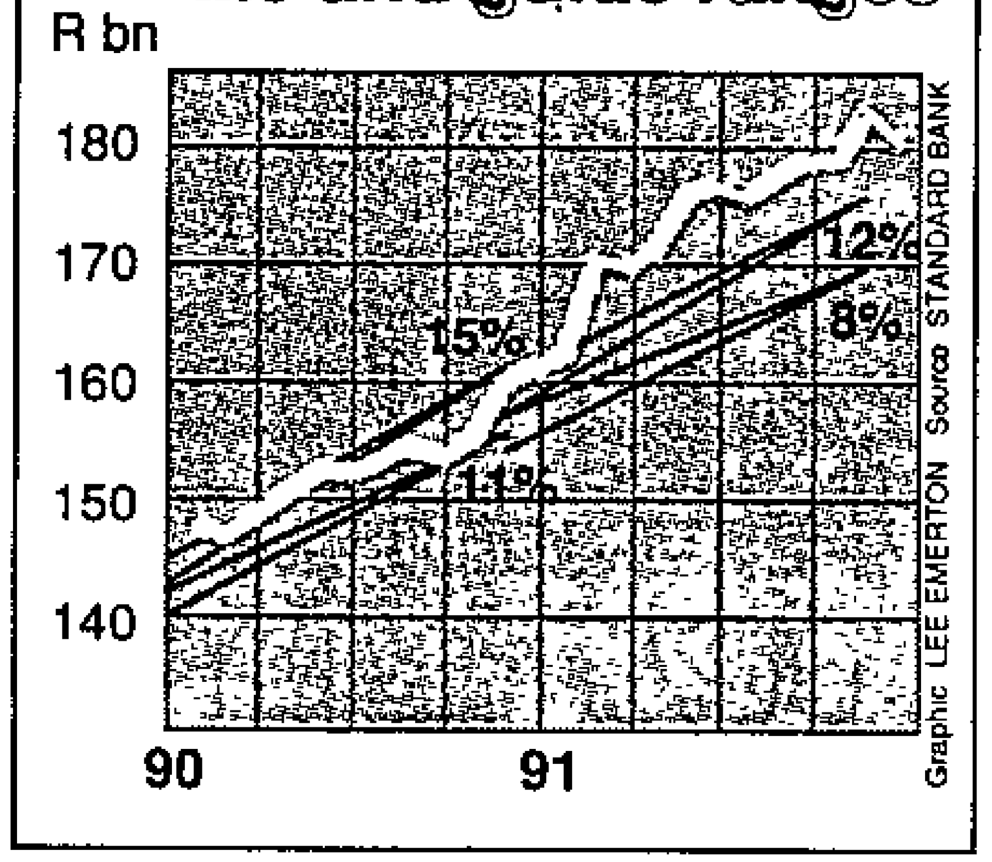
Because of this, January money supply data, expected early this week retain their importance in helping to determine where the Reserve Bank will fix its guideline range for 1992.

In line with its progressively more restrictive monetary policy stance during the past few years, the Bank has been lowering the range for what it judges is an acceptable increase in the money supply.

The range is applied to the increase in the broad money aggregate, M3, from a base consisting of average annual M3 growth in the fourth quarter of the previous calendar year.

The 14% to 18% range for 1989 was lowered to 11% to 15% for 1990 and to 8% to 12% for last year. The 1991 range was announced during the second week in March last year, a week before the presentation of the 1991-92 Budget.

M3 and guide ranges



On that timetable, irrespective of the referendum's effect on the 1992-93 Budget, the announcement of the 1992 guideline is only days away.

Strictly interpreted, M3 growth overshot the Bank's guideline for most of 1991. But special factors were behind the swelling in the M3 aggregate — mainly the effects of the Deposit-Taking Institutions Act, which affected aggregates in February 1991.

A popular estimation in the markets is that the Bank will go for a 1992 range of about 6% to 10%, slowing to two points the three-point drop in the range for each of the past two years. Analysts reckon the top of the range will be pitched at the likely rate of nominal GDP growth for the year — about 14% — but slimmed down to about 10% to maintain downward pressure on inflation. The traditional four-point spread for the range gives a floor of 6%.

This week's January M3 figures should confirm that a range of about this magnitude is easily attainable this year.

Year-on-year M3 growth slowed for the third consecutive month to 12,4% in December, while deposit-taking institutions-inclusive growth from the 1991 base quarter was 13%, and deposit-taking institutions-exclusive growth with a February 1991 base was a mere 7,4%.

The January rate of inflation as measured by the consumer price index is also scheduled for release early this week. Consumer inflation accelerated to 16,2% in the year to December from November's 15,5%.

On the international front, the US economy's flirtation with full double-dip recession continues on Friday with the release of the first revision to fourth-quarter US GDP. The advance figure published three weeks ago saw a slump to 0,3% from the third quarter's 1,8%. This week's revision and the final revision two weeks hence could establish that US GDP declined by a small margin in the fourth quarter.

This year's first-quarter GDP outturn already has all the hallmarks of economic contraction, as the voters of New Hampshire gently reminded the administration in the presidential primary last week. Calculations doing the rounds put the likely first-quarter decline at about 1%, so any dip in the revised fourth-quarter figure could set up the official achievement of a double-dip US recession.

Absa knocks R100-m off price for Bankorp

Finance Staff STAR 25\2\92

Absa has chopped R100 million from the price it is prepared to pay for Bankorp.

Absa said yesterday that as a result of valuations based on its own accounting practices and policies it had reduced its offer from 312,5c to 288,5c for each Bankorp share — a reduction of 7,68 percent. This will reduce Absa's offer price from R1,31 billion to R1,21 billion.

Bankorp' shares are currently trading at 250c.

Absa will finance the takeover by issuing 107,5 million new Absa shares at 1125c. (58)

Bankorp ordinary shareholders will receive 100 Absa shares for every 390 Bankorp shares, and not 360 as previously decided.

The scheme is subject to approval by Absa and Bankorp, sanction by the courts and approval of the additional shares by the JSE.

Analysts said that the reduction followed a "due diligence" exercise.

While it will be a blow to Bankorp shareholders to receive less than the original offer, the comparitively small reduction suggests Bankorp is not in such bad shape as had been thought.

Keys sees partnership role for EC in new SA

STAR 25/2/92

By Neil Behrmann

LONDON — South Africa and other Southern African nations should negotiate a trade agreement with the European Community, Minister of Trade and Industry Derek Keys suggested yesterday.

At a Business Research International conference in London, Mr Keys said that South Africa would become the "economic flywheel" for sub-Saharan Africa.

The world cannot stand idly by and see the other sub-Saharan countries be delinked from world economic growth and consigned to some kind of "too-poor-country scrapheap", he said.

There was thus a need for the developed world and South Africa to form a partnership, which would see South Africans playing crucial economic roles elsewhere in Africa, Mr Keys said.

This would have a favourable impact on trade within the region and with the rest of the world, he said.

"In this connection, one would also wish to contemplate some arrangement of linkage to existing economic power concentrations."

Probably the EC would be the best economic power bloc, said Mr Keys.

Either Southern Africa should enjoy some existing EC trade arrangement or negotiate a separate arrangement for the region, entailing corresponding benefits and obligations, he said.

"South Africa's prospects for increasing exports are quite promising," he said.

Derek Keys . . . to everyone's benefit

"We have a stream of products heading north and a stream of products to which value can be added," he said.

Exports were typically between 25 percent and 32 percent of gross domestic product, he said.

There were four basic determinants of any SA government's trade and investment policy, said Mr Keys.

Firstly, it should encourage internal markets to grow for decades ahead.

Secondly, it should develop the industry so that it could supply internal markets, while lowering tariffs for goods that could not be made locally.

Thirdly, businessmen should be encouraged to stimulate exports by developing value-adding plants.

"Like all governments, we would like to see income per capita growing by at least one percent per annum, implying growth close to four percent a year," said Mr Keys.

"This may be beyond us, although I don't think that it is, but just maintaining per capita income still implies real growth of around three percent," he said.

The greatest growth would be in demand for the basics of living, notably food, shelter, clothing and education, he said.

"We are starting to get some good quantitative advice from a number of sources, which is helping to define the limits of the possible," said Mr Keys.

"Just how much in the way of resources is it feasible to apply to socio-economic ends and to what cost?" he asked.

"Nobody wants to even mildly inconvenience the golden goose, let alone kill it, if its egg production can be stimulated to everyone's benefit.

"I think it's Mr Mandela himself who said he doesn't care what colour the cat is, as long as it catches mice."

Mr Keys predicted that President FW de Klerk would win the referendum hands down and that Codesa would swiftly negotiate an interim government.

"As the political pressure gets transferred to the right quarters and the economy gets into higher gear, inflation should decline.

"Once capital flows swing from outwards to inwards," he said, "the rand will appreciate and reduce inflation by a point or two," he forecast.

Defence cutbacks hit Grinaker

By Derek Tommey STAR 25\2\92

Tough conditions in the construction industry and a cutback of defence orders for electronic equipment hit Grinaker Holdings in the six months to December.

Attributable profit dropped by 57 percent from R14,5 million to R6,2 million and earnings dropped from 41,5c to 17,8c a share. The interim dividend has been halved from 10c to 5c a share.

Grinaker's electronic subsidiary, Grintek, fared rather better. A reduction in defence contracts affected Grinaker Electronics, one of its two operating companies. But its second operating company, Siltek, managed a 15 percent rise in earnings.

This helped limit the drop in Grintek's earnings in the six months to 11 percent from R13,8 million to R12,3 million, and the decline in earnings a share to 10 percent from 7,1c to 6,4c.

Nonetheless, the interim dividend has been cut by 29 percent from 2,4c to 1,7c a share.

Grinaker chairman Jan Robbertze said yesterday the construction company's earnings were 62 percent lower and similar results were expected for the second half.

He said the construction group had suffered from decreasing margins, particularly in civil engineering and related activities. Order intakes declined in real terms.

Absa cuts Bankorp offer by R100m

B/Day 25/2/92 (58)

SHARON WOOD

ABSA yesterday dropped its offer for Bankorp by R100m to R1,2bn following the results of a due diligence investigation.

Under the revised offer Absa would pay 288,5c for a Bankorp share, compared with the original offer at end-January of 312,5c a share, a statement said yesterday. Absa reserved the right in the original offer to renegotiate the price depending on the outcome of the investigation.

The R1,2bn purchase would be financed through the issue of 107 551 629 new shares (116 514 264 previously) in Absa at 1 125c a share. Bankorp shareholders would receive 100 Absa shares for every 390 Bankorp shares (360 previously). The Absa/Bankorp merger is subject to shareholder, court and JSE approval.

Banking analysts said the revised offer was no surprise because they had been aware that the final value of the deal had not been set. They were confident Absa shares would increase in value following the announcement of the revised offer.

Martin & Co analyst Richard Jesse said Absa shares were a buying opportunity because Absa had done the job properly and its share price should increase this week.

Absa's share price closed at 995c a share yesterday, down 5,64% from January's close of 1055c a share. A banking analyst said the dip in the share price below R10

□ To Page 2

Bankorp

B/Day 25/2/92 (58)

□ From Page 1

since the deal was announced had been a result of a perception that Absa had proposed to pay too much and because it was unsure what the final terms of the deal would be.

Bankorp shares slid 15,5% to close at 250c a share yesterday from January's close of 295c share.

In a related development, Sankorp announced it would pay 340c for Momentum Life shares, 19c down on its original offer of 359c a share. The offer was also based on the results of a due diligence study.

The offer is conditional on the approval of the Absa/Bankorp merger, which is expected to be obtained before the end of April.

Crusader on growth path

STAR 26/2/92

Anglovaal's life and health-care assurer Crusader Life continued on its growth path with net premium income and annuity considerations amounting to R62,2 million for the half-year to December 1991.

(58)

Because of the change in the company's financial year-end to June 30, comparatives for the six months to December 1990 are not available, but during the 18 months to June 1991, the figure was R118,6 million.

Similarly, net investment and other income was R3,7 million during the half-year, against R9,1 million in the 18-month period.

The net taxed surplus amounted to R2,5 million (18 months: R6,1 million), equivalent to a surplus of 9c (26,75c) a share.— Sapa.

Crusader net premium income shows growth

BDay 26/2/92 (58)

SEAN VAN ZYL

ANGLOVAAL Insurance Holdings' subsidiary Crusader Life has disclosed total income of R65,8m for the six months ended December, on the back of strong growth in net premium income, the directors stated.

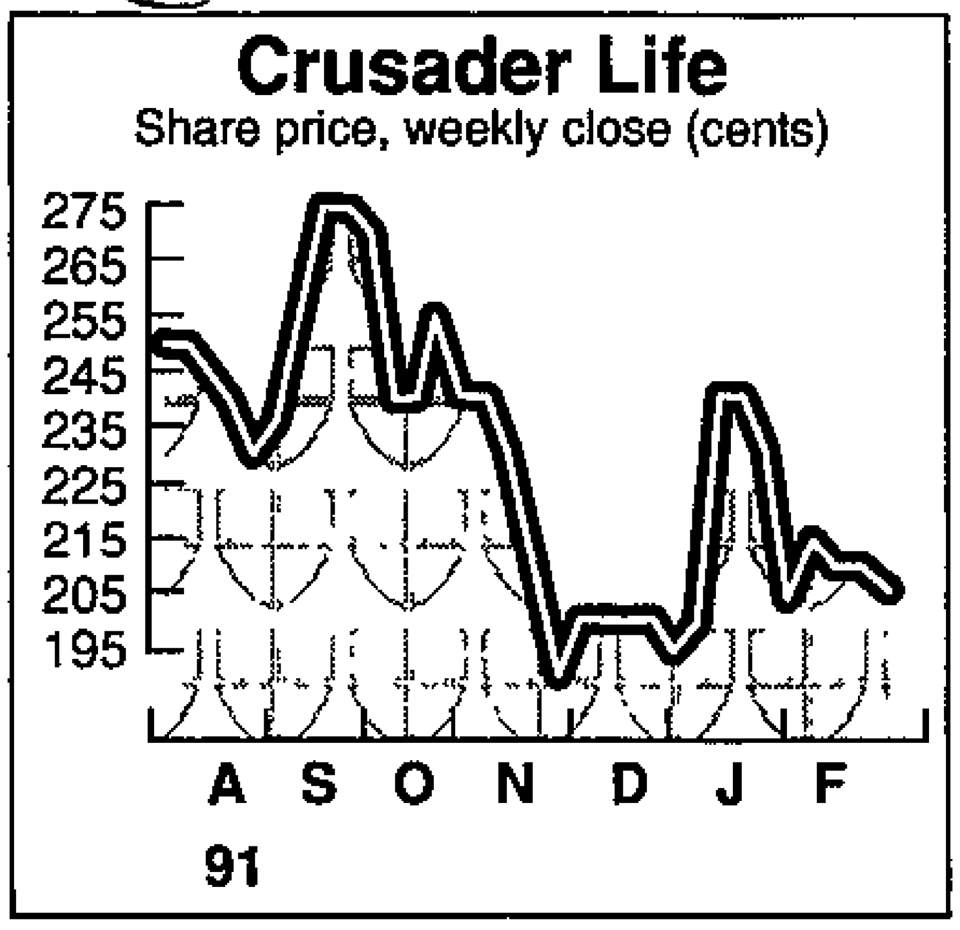
The life company's earnings, or surplus a share, came in at 9c (June 1991: 26,7c) a share.

A brief statement issued by the Anglovaal Group noted that Crusader Life's year end had been recently changed from December to June, and therefore was not comparable with past performance figures.

The assurer also declares a single dividend payout a year at its financial year end. As a result, Crusader Life has not declared a dividend for the six months to December.

The assurer's net premium income and annuity considerations amounted to R62,2m (R118,6m) for the period while investment income came in at R3,6m (R9,1m).

Total income amounted to R65,8 (R127,7m). The taxed income for the period was R2,5m (R6m).



Graphic: LEE EMERTON Source: I-NET

Crusader Life's investments, based on market value, climbed by 35% over the six months to R106,8m (R78,8m). The life fund also rose to R107m from R83,3m.

Chairman Don Rowand said the assurer's UK-based operation, Pegasus Assurance, had budgeted for a small profit for the calendar year, "having overcome the previous difficulties it experienced with its direct sales force".

More banks to expand on statements

B/Day 26/2/92

58

SHARON WOOD

BANK clients soon will be able to check that they are not being overcharged on interest, when all major banks reflect current account interest payments on bank statements.

Deputy Finance Minister Theo Alant announced yesterday that six more banks would provide statements on current account interest paid. They were First National Bank, Volkskas, Boland Bank, French Bank, Bank of Lisbon and Overseas Bank.

FNB would supply statements before the end of February, Volkskas not later than end-April, Overseas Bank from March, Boland Bank and Bank of Lisbon at the end of March, and French Bank at the end of June, Alant said.

Banks already supplying interest statements were Standard Bank, Bankorp, Nedperm, Absa, Bank of Athens and Firstcorp.

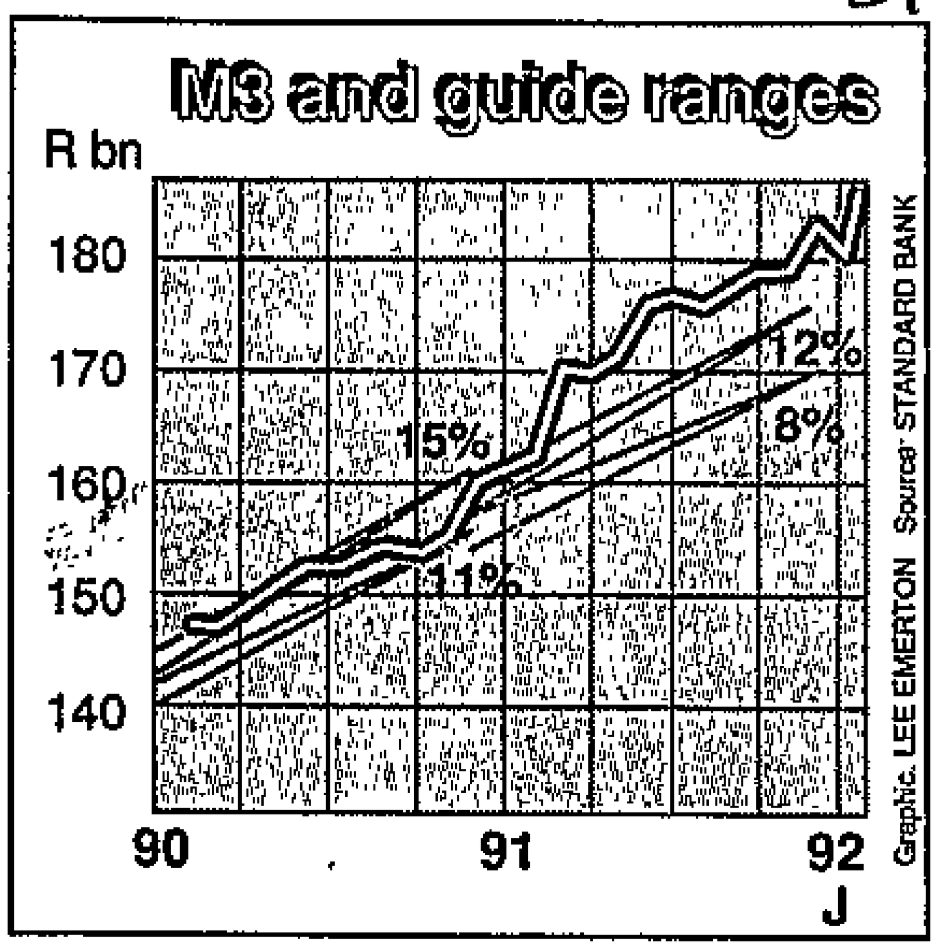
The move comes after claims that banks were significantly overcharging customers on their overdrafts.

In addition to interest overcharges, evidence indicated interest rates were at times increased without the notification required by the Usury Act.

Money supply growth drifts off target

BDay 27/2/92

SHERIDAN CONNOLLY



THE Reserve Bank's targeted measurement of money supply growth drifted further away from the Bank's 1991 guideline range in January, figures released by the Bank showed yesterday. (SS)

The annual growth rate in M3, the broad measure of money in circulation, climbed to a preliminary 14,73% in January against growth in the year to December of 12,69%.

Growth from the base guideline year, the fourth quarter of 1990, was 14,61% in January compared with a revised 13,27% in December. The Bank's 1992 guideline range for M3 growth, 8% to 12% last year, is expected to be lower when it is an-

☐ To Page 2

Money supply

BDay 27/2/92 (SS)

☐ From Page 1

nounced next month.

In terms of broadly defined money supply, money in circulation stood at R185,4bn in January from R180,8bn in December.

The year-on-year increase in broad money supply was, however, still distorted by reintermediation associated with the Deposit-Taking Institutions Act and, because of this factor, economists consider the annualised growth rate from February 1991 to be the most reliable measurement of money supply. The annualised figure strips out the effect of institutions bringing onto their balance sheets previously off-balance sheet items in terms of the Act.

Nedbank chief economist Edward Osborn said the 9,9% annualised rate of increase in January as against December's 7,7% rise was fairly satisfactory. The rate was indicative of the low levels of demand for bank credit at present.

Considering that the annual rate had been fluctuating within a 7% to 10% range in recent months, January's 9,9% annualised rate was acceptable, Osborn added.

The Bank's new guideline range for money supply growth, applied from a base date from about mid-November, would be announced close to Budget day next month.

SA equities trade on foreign markets

BDay 27/2/92 (58)

SHARON WOOD

STANDARD Bank began trading in SA equities on overseas markets this week through its wholly owned London subsidiary.

Standard London, the bank's overseas branch, began its market-making activities in SA equities through the Seaq International dealing system on Tuesday,senior GM Graeme Bell said yesterday.

"The long-awaited entry of an SA participant in the international securities marketplace has been welcomed by institutional and professional investors who have been concerned by diminishing liquidity in the SA market," he said.

By raising the profile of SA equities and gilts internationally, it was hoped that potential investors would be encouraged to include an SA component in their portfolios and that SA companies would begin to gain the rating they deserved.

Once established, a solid international base would afford local corporate fund-raisers direct access to the world's capital markets, he said.

Relief for homeless

Sowetan 27/2/92

MORE than 560 houses are under construction for homeless blacks in Windmill Park, in the Conservative Party-controlled town of Boksburg.

Leading home loan specialists EP Building Society, in conjunction with Goldstein Housing, were aiming to produce a "prestigious" home development in the area from March.

Within the boundaries of the "white controlled" suburb, all the surroundings in the area would be developed to accommodate blacks, Indians and coloureds.

Goldstein managing director Mr Mannetjies Ford said he hoped that the project would help alleviate the housing crisis. The project was "unique" and would provide for the needs of the residents.

He said that a shopping complex to cater for the informal and formal sectors, taxi ranks, a petrol station and other recreational facilities were underway.

He also hoped that the building of these structures would help create jobs for the unemployed as well as the small black builders who would be given an opportunity to construct the projects.

The society's manager, Mr Keith Adam, said that his company would give financial help to prospective home-owners at "reasonable" prices.

Entry forms for the competition are available when visiting the area. Closing date is November 30.

Sankorp makes offer on Bankorp shares

B/Day 28/2/92

SHARON WOOD (58)

SANKORP yesterday offered to buy Bankorp ordinary shares for a cash underpin of 288,5c if shareholders were not interested in the share exchange alternative offered in the merger deal between Bankorp and Absa.

The other option for Bankorp shareholders was to receive 100 Absa shares, issued at 1 125c a share, for every 390 Bankorp shares held.

The offer was conditional on Absa and Bankorp shareholder approval of the merger in a general meeting and a court sanction.

Sankorp, Sanlam and Status Investments collectively held 85,8% of the issued Bankorp ordinary shares, a statement said.

Sankorp had undertaken to encourage Sanlam and Status Investments to vote in favour of the Absa/Bankorp scheme of arrangement, whereby Absa would acquire the entire issued ordinary share capital of Bankorp.

In a related statement, Bankorp announced it would publish its interim results for the six months ended December 1991 on March 20.

A banking analyst welcomed Sankorp's offer and said it was an admirable way of looking after those minority shareholders that wanted to opt out of Bankorp.

Shareholders would see their income dwindling by 65% as a result of the merger and their shares worth less. If shareholders accepted the offer they would be paid more or less the same price they had bought the shares for.

The offer was unusual, he said, because Sankorp probably would not have done it if the price of Absa shares had remained at over R11 a share. The price of Absa shares had plunged after the deal, effectively putting a much lower value on Bankorp shares.

Underwriting profit heralds a turnaround

Bday 28/2/92 (58)

SEAN VAN ZYL

COMPOSITE insurer Commercial Union has posted an 18% increase in net premiums written to R713m for 1991, and this translated into an underwriting profit for the year against a loss in 1990.

The insurer posted a 67% rise in consolidated attributable earnings to R48,8m, equivalent to 488,4c (291,4c) a share. The year's total dividend has been lifted to 142c from 105c.

MD John Kinvig said the group's performance was underpinned by the turnaround in the underwriting account which generated a surplus of R5,3m compared to 1990's loss of R18,8m. However, he noted the underwriting surplus amounted to less than 1% of total premiums written. As a result, the underwriting account was still "hanging in the balance" and could return to the red should short-term business conditions deteriorate further.

Conditions remained difficult in most classes of risk, particularly personal lines business. Although premium rates seemed adequate on the motor account, Kinvig said rates on household business may have to be adjusted to accommodate increased risk arising from the present high incidence of crime. Overall, he expected premium rates to rise at the same rate of inflation in 1992, barring any major losses.

Commercial Union's net short-term premiums written rose 19% to R362,8m. Boosted by the recovery in the underwriting account, its pre-tax profit climbed to R58,8m from R27,2m. Investment income, rose to R44,5m from R38,3m.

The group's life operation increased premium income to R350m from R298m, while recurring premiums rose to R74,7m (R61,6m). New single premiums rose to R121,2m from R115,8m. The life fund's assets also grew by 27% to R2,6bn.

The group stated that from the beginning of the year the life and short-term operations had been separated under Commercial Union Insurance and Commercial Union Life Assurance. The name of the group's listed holding company had also been changed to Commercial Union of SA. Future financial notices published would reflect the structural changes.

 FM 28/2/92

Sorting out the mess

58

Any offer of an unusually high rate of return — whether it's by a savings scheme, a unit trust, bank or any other investment vehicle — sends one message loud and clear: be careful.

By chasing returns one to three points above average, the 20 000 investors in the failed Masterbond group missed that message. Now they are caught up in a complex financial web that will take months, probably years, to unravel and cost many of them a lot of money. The web's complexity was evident in the report of the Masterbond provisional curators, submitted to the Cape Town Supreme Court this month.

The Masterbond group comprised 81 companies, according to the report. It employed 205 people, operated 85 bank accounts, had a direct or indirect interest in about 50 property developments and had collected R595m from those 20 000 investors. Since the collapse in October, the curators and their staff of 40 have been picking through the wreckage to determine the viability of each project and establish precisely who invested in what.

Many of the findings in their 54-page report are unnerving:

- Masterbond used short-term investments for long-term loans, making continuous refinancing necessary;
- Major projects could not pay interest until they were completed, so interest had to be paid out of additional capital advances;
- In some completed developments, debtors were not paying bond interest but investors were being paid interest; and
- The operation tumbled because the flow of cash from investors diminished.

For most of its seven years, however, Masterbond was adept at getting cash from the public. The money usually went into participation mortgage bonds (there were 53, valued at R70,8m and involving 2 451 investors at the end of last year) or debentures (there were 54, valued at R400,5m and involving 10 026 investors).

In addition, Masterbond's money market desk invested unplaced funds on behalf of customers and a property division held interests in various developments. As of December 31, the money desk held R26,9m on behalf of 5 893 investors and the property participations involved R96,9m for 2 403 investors, according to the report.

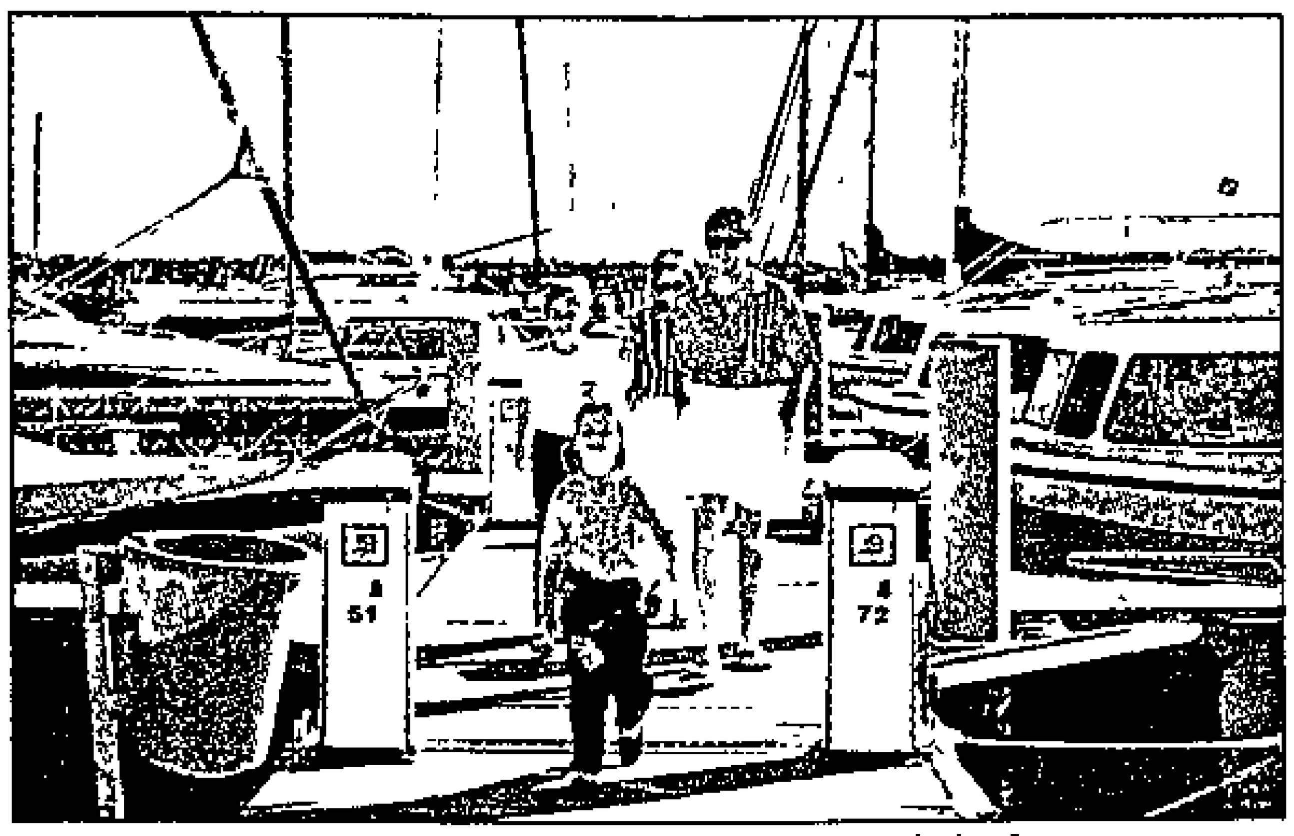
All the money invested by the money desk was repaid on January 23. A few other bond repayments and interest payments have been made. That was the easy part.

The major task for the curators, auditor Willem Wilken and attorneys Arnold Galombik and Jozua Malherbe, is deciding on the prospects of each project in which Masterbond funds were sunk. The curators must determine whether to continue the project or call the loans and sell the property. After inspecting the group's five major schemes, the curators concluded, in each case, that immediate liquidation would hurt investors.

The five schemes are Club Mykonos, near Langebaan north of Cape Town; Fancourt, near George in the south-western Cape; Marina Martinique, near Jeffreys Bay in the eastern Cape; Phinda Land, two farms totalling 13 000 ha in northern Natal; and Silverhurst, a Cape Town residential development.

Problems at Club Mykonos helped to precipitate Masterbond's fall. The project has received the most publicity. It stands on land leased for 99 years but the lease was not registered in the deeds office and this may come to haunt investors. A partially complete holiday village and hotel were built on the site and financed by raising bonds.

Then followed a series of interwoven loan and bond transactions between the land-owning company (CML Langebaan), the club, its management company and other Masterbond operations, complicated by the revenues received in the sales of shareblock and timeshare units. The curators are still trying to determine how much the club's investors will recoup. Meanwhile, no interest will be paid.



Club Mykonos ... *what they didn't know did hurt them*

Perhaps the most shocking aspect of the Masterbond affair involves not Club Mykonos but, instead, the property on either side of the club — two pieces of bare, windswept undeveloped land totalling 88,8 ha. The land was bought by a Masterbond company in November 1987 for R150 000, according to the curators. Afterwards, the company issued investors R30m in debentures that were "secured" by the property.

The company is Mykonos Weskus Beleggings, previously known as Koos Jonker Beleggings. (Koos Jonker was the chairman of Masterbond). Its current directors are Jonker, Johan Brits and Johan Winkler, who indirectly control the share capital of the company through their family trusts and their shareholding in Masterbond Trust Investment Holdings.

Rezoning and subdivision approval has not yet been received for the land, and the curators say the company has no income and cannot pay interest to the debentureholders. In fact, the curators indicate that these investors may never get their capital back.

The outlook for Fancourt is brighter. At the end of last year, 45 chalets were completed at the resort. Another 23 were partially completed and 16 of these had been sold. An additional 13 still on the drawing board had also been sold. Masterbond's interest consists of R90m in participation mortgage bonds and debentures secured by mortgage bonds.

A deal worked out by the curators will allow development to continue and leave the bonds untouched for now. They believe it's probable that some interest may be paid to investors from next month but capital redemptions are unlikely for some time, depending on continued unit sales.

Masterbond investors have R69,2m tied up in Marina Martinique. The project is undercapitalised and the curators believe that another R40m-R60m is still needed to finish it.

A search for an alternative investor is under way. Meanwhile, the project is unable to pay any interest to investors. The curators have postponed the application for liquidation until April 30.

The Phinda Land project has absorbed R42,5m in Masterbond debentures. The curators believe that investors will achieve better returns if the scheme is completed; so they are negotiating reduced interest payments, equity-conversion options, a formula for capital repayments and immediate discounted cash payments.

In their court appearance on February 12, when they submitted their report, the curators argued that investors could lose even more money if any of the eight Masterbond companies under curatorship were liquidated. They said careful monitoring and negotiating with development companies would ensure the best results for investors and creditors. Judge Patrick Tebbutt decided to extend the curatorship to August 12 and asked for a progress report by May 31.

Though the report gave little indication of when anxious investors will see some or all of their money, the curators' conclusions should work to calm some nerves. The wholesale liquidation of all of the group's developments would fetch only fire-sale prices for potentially valuable assets, especially in the continuing recession.

Instead, the more viable developments, if well-managed, may at least hold their bond values and give investors some semblance of a return before repayments can be made. Under the circumstances, the curators appear to making the best of a very bad job.

FM 28/2/92 (58)

OCTODEC INVESTMENTS

FM 28/2/92 (58)

Recovery potential

Octodec was formed by a restructuring of Pretoria-based property company Tomkor and listed in the property loan stock sector in September. A one-third increase in the share price since January 1991 suggests shareholders have had a pretty good year.

Chairman Alec Wapnick says that given this performance and with returns forecast to grow in 1992, the market price of the linked units should begin to reflect more accurately the yield inherent in the underlying portfolio.

Roughly 30% each of the portfolio is in the Pretoria CBD and Pretoria West area, including Nedwest Centre, the largest complex in the portfolio. Other properties are in Hermanstad, Silverton/Waltloo and suburbs identified as growth areas.

The 84 developed properties, which have relatively low maintenance costs, are suitable for a wide variety of tenants, of which none accounts for more than 10% of income. Obviously, the income stream is rate-sensitive. Both net and gross leases are generally

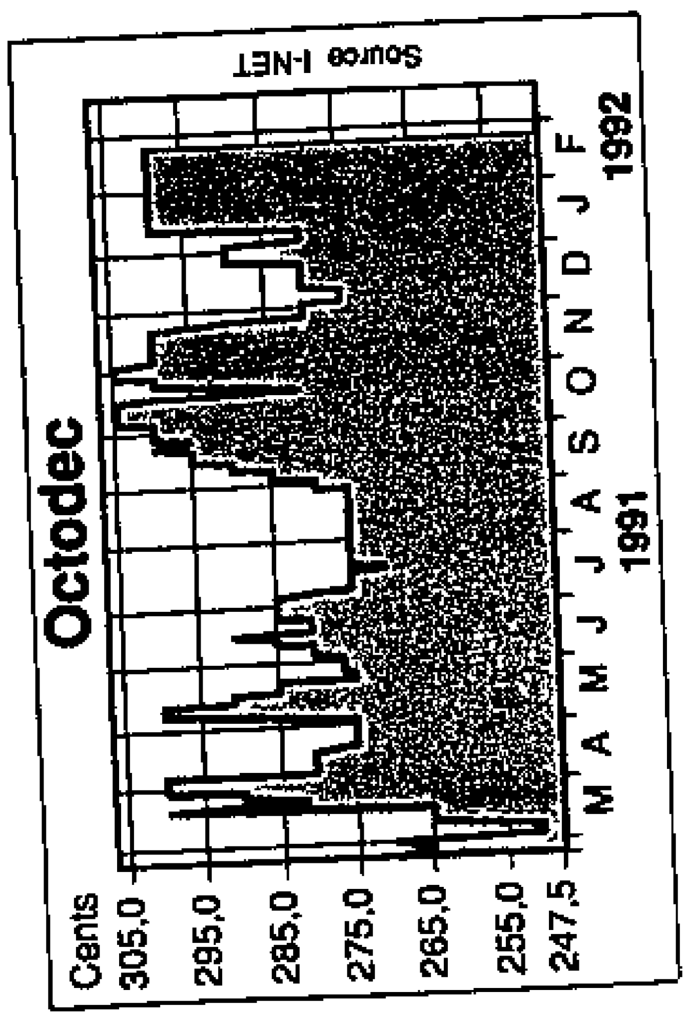
Octodec's Wapnick ... *returns should improve*

FM 28/2/92 (58)

Activities: *Property loan stock company active in the retail, commercial and industrial fields.*
Control: *Held by Tomkor.*
Chairman: *A Wapnick; MD: J Pollack.*
Capital structure: *47,7m ords linked to 47,7m unsec var rate red debentures. Market capitalisation: R143m.*
Share market: *Price: 300c. Yields: 13,5% on dividend and interest. 12-month high, 305c; low, 230c. Trading volume last quarter, 219 000 shares.*

Year to Aug 31	'91
Int & leasing cover	1,0
Return on capital (%)	11,3
Turnover (Rm)	22,9
Pre-int profit (Rm)	18,1
Pre-int margin (%)	79
Earnings (c)†	40,61

† per linked unit, comprising 39,81c interest and 0,80c dividend.



for three years with 10%-15% escalations.

Occupancy levels were 95% of lettable area at year-end and are similar now. This was achieved by letting certain properties below market values. Interest received of R1,82m and rental escalations protected earnings from the greater impact of bad debts combined with higher vacancies. The company paid out just over R19m in debenture interest last year.

Income by sector was 50% from commercial & industrial and 40% retail.

Because the company is taxed on retained income, all income received was redistributed to unitholders. Expected dividends are, in turn, a function of future rental incomes less anticipated maintenance and administration costs plus expected interest received on the cash portion of the portfolio.

There were no changes in the property portfolio last year. Capex of R700 000 to upgrade one building will be funded from cash resources.

The company predicts an 8,1% rise in rental income, to R24,8m, this year and a profit of R20m.

The yield on the issue price of 220c was 18,4%. The share looks underrated on historical earnings and should have recovery potential.

Basil Barber

FM 28/2/92 (58)

ABSA/BANKORP FM 28/2/92

More conservative (58)

Absa's announcement last month of its acquisition of Bankorp stated that the purchase price — then given as R1,31bn — would depend on the outcome of the due diligence investigation.

Given the troubled history of Bankorp and, perhaps, the strength of Absa's bargaining position, some revision of the price was probably to be expected. Of concern now, is how the market will react to the extent of the revision, and its view of the likely effects of the deal for Absa.

Absa's share price had retreated since the deal was announced. It fell from a 12-month high of 1 160c on January 28, to around 985c early this week. Even allowing for a generally weaker stock market over the past fortnight, a drop of just over 15% suggests misgivings in the market.

In any banking merger or acquisition, the price paid has a big influence on the eventual success (or failure). With the purchase price cut by R100m, to almost R1,21bn, at least some of the reservations must have been quelled.

One judgment that any investor is going to have to take, is whether the absorption of Bankorp will impede Absa in its quest to lift return on assets above 1%. From that standpoint, a lower price must help. Deputy CE Danie Cronje does not see any real difficulties, and estimates that returns could rise to this level within 12 to 18 months.

On the face of it, a price revision of 8,3% on a deal this size does not suggest the due diligence investigation produced nasty

FM 28/2/92 (58)

shocks. It might even be taken as reassurance that Absa is comfortable with what it found.

But it is unfortunate that precise reasons for the price revision remain obscure. The announcement states blandly that the new price is based on application of accounting policies and practices adopted by Absa. Cronje emphasises that this was the reason for the revision and will not elaborate further.

Absa does apply conservative accounting practices. When applied to the wide range of items affecting a large banking group's accounts — such as bad debt provisions, treatment of costs and recognition of profits — these could easily account for the difference. But Bankorp's poor disclosure in the past makes this difficult if not impossible for outsiders to evaluate.

Complicating Bankorp's case is a history of disappointments and some major questions that have yet to be settled satisfactorily. In particular, the rumour of a R1bn lifeboat from the Reserve Bank has not been unequivocally denied.

It seems strange that Absa has not been willing to state clearly that there is no such lifeboat and no soft loans (which presumably could be taken away in future) in the banking group it is buying for R1,2bn. Cronje says these questions should be addressed to the Reserve Bank.

For Bankorp's minorities, who have held on to the share in the hope of a sustainable profit recovery or a deal at a much higher price, the new terms will come as a blow. Not only is the price only slightly above the 280c at which Bankorp stood for months, but the dividend is slashed by two thirds. But there is always risk in holding the share of a bank with a poor record and inadequate disclosure.

Following the revision of the purchase price, Absa's share gained 15c on Tuesday — still not an enthusiastic response. More clarity on just what Absa is acquiring is needed.

Andrew McNulty

CAPE REAL ESTATE 58

Not going in cold

FM 28/2/92

Natal-based estate agent Wakefields is moving into other provinces after deciding last year to expand. MD Keith Wakefield says the 53-year-old firm with 18 Natal offices is making its initial thrust into Cape Town.

Others have tried and failed — J H Isaacs had to pull out of this market after four years (*Property* January 10) — but Wakefields believes buying established agencies and not going in cold will make all the difference.

The company bought Plotland Real Estate, which operates in Tableview, in July, and it bought equity in City Homes in November.

Wakefield says: "The intention is to develop these and pull them together under the Wakefields umbrella. We have already expanded the Plotland arm with two new offices in Bothasig and Bellville. So we now have four offices in the Cape with about 40 agents working out of them, and we intend to expand from that base."

Wakefields plans to have eight to 10 offices in the Cape by July 1993.

Absa bought a 25,4% stake in Wakefields in January 1991. It also has a stake in Seeff which operates in the areas where Wakefields has now become active.

Wakefields has had an office in Randburg for about five years but recently strengthened its presence on the Reef by buying into Edenvale's Fuller Estates. It trades as Fuller Wakefields in the Transvaal. "The intention is to expand this operation as well," Wakefield says. "The Cape has just happened a little quicker than the Transvaal because the opportunities were there. But we hope to establish about 10 offices in the Transvaal within the next 18 months."

While Wakefields moves into the Cape and Transvaal, leading Cape agent Pam Golding Properties is now strengthening its Natal operations.

PGP vice-chairman Peter Golding moved to Durban this week to head PGP Natal. He plans to add offices to the existing seven, including a specialist division to handle farms, new residential developments and commercial properties. ■

IDT opts for aggressive investment

B|Day 28/2/92

58

LINDA ENSOR in Cape Town

THE Independent Development Trust (IDT) devised a unique set of investment guidelines for the management of its R2bn portfolio, IDT finance director Jannie Kitsoff said this week.

It was decided to embark on an aggressive investment strategy in order to get a higher return. Each of the seven selected portfolio managers was given the freedom to pursue his own investment strategy within the parameters of the guidelines laid down.

The results are monitored on a monthly basis and the relative performance of the portfolio managers is measured within asset classes against the benchmark of a passive investment strategy over two years — 35% in the JSE Actuaries All Bond Index and 65% in the McLeod Money Market Index. The McLeod index is one devised by McLeod Asset Consulting, which monitors performance. The performance is evaluated over a period of at least six months

There have been wide differences in the performance of the various portfolios and dramatic swings have taken place over time. An average overall return on investments of 17,8% was achieved from August 1990.

Seven portfolio managers were given responsibility to invest the R2bn granted to the IDT by government: First National Bank (R400m), Standard Merchant Bank (R400m), UAL Merchant Bank (R400m), Rand Merchant Bank (R200m), Senbank (R200m), Volkskas Merchant Bank (R200m) and Syfrets Managed Assets (R200m).

"They were chosen for their expertise in managing short-term fixed interest security portfolios. They were also chosen because of their size and their financial soundness as institutions," Kitsoff says.

Management of the IDT's funds was either taken over by a specialist portfolio management division or the money market division of the institution.

Although there was uncertainty over the duration of the trust, it was assumed for the purpose of portfolio management that, in the absence of an additional inflow of funds, the assets of the trust would be exhausted in about three to four years. The liabilities were estimated to have a likely duration of two years. To limit the exposure of the fund to adverse interest rate movements, a maximum duration of three years was set.

In terms of the investment guidelines, not more than 25% of the total funds under administration by any one portfolio manager could be exposed to banking groups with shareholders' funds in excess of R1bn or any of their wholly owned subsidiaries. These groups were FNB, Standard Bank Investment Corporation, Absa and Nedcor. The maximum maturity of instruments in this category could not exceed three years.

Not more than 10% of the fund could be invested in the Bank Holding Corporation of SA (shareholders' funds in excess of R500m) or its subsidiaries, with the maximum maturity of investments being limited to two years.

For financial institutions with shareholders' funds in excess of R100m such as NBS Holdings and Rand Merchant Bank, a limit of 2,5% of the fund was laid down and the maximum maturity of investments was one year.

No limits were placed on investments in bills, bonds and securities issued or guaranteed by the government, Eskom and the Post Office. A limit of 30% of the fund was placed on instruments issued or guaranteed by Transnet and the Land Bank. SA Housing Trust, Development Bank and Umgeni Water Board instruments were limited to 10% of the fund.

Guidelines were also laid down on the use of options.

Kitsoff says the IDT has been pleased with the performance so far.

Lib Life claims low-risk yields

(58)

PENSION and provident funds invested in Liberty Life's Element Managed Portfolio (LEM) achieved the best of both worlds in 1991, says the company. STAR 29/2/92

Not only did the fund post a 28,9 percent return — claimed to be one of the highest in the industry — but it achieved this investment performance with a low risk factor.

Liberty Life's Guaranteed Fund, said to have virtually a nil risk factor, achieved 21 percent.

Mike Garbutt, general manager group benefits, sales and marketing at Liberty Life, said: "Indications are that the financial market of the 1990s will experience a far more volatile profile than those of the 1980s. Hence the importance for trustees to ensure that their funds' investments maintain a low risk profile without sacrificing the optimisation of returns."

Finance seminar a smash

STAR 29/2/92

THE Allied Bank/Saturday Star personal finance seminar, which was held over two days at the Johannesburg Sun last weekend, is set to become an annual event — with the possibility of several smaller, more focused seminars for readers in the pipeline.

The 800 seats at last week's seminar were booked well in advance, but people still hoped for a seat.

Planning has already started on the first meeting of The Star Investors' Club. More details will be published early in March. 58

BRIEFLY

'Good returns' from Southern

(58)

STAR 29/2/92

SOUTHERN Unit Trusts has declared a total income distribution of R3 million for the period ended January 31 1992, with a dividend of 4,34 c and 3,4 c per unit on the general equity fund and the specialist mining fund respectively.

The dividend will be paid to unit holders on 3 March.

A distribution of R2,4 million has been declared on the Southern Equity Fund — more than double the R1,1 million in 1991 — with the Southern Mining Fund distributing R600 000 (R400 000 in 1991).

Head of Southern Unit Trusts, Francois Goosen, said that following a strong inflow into the Southern Equity Fund over the past year, the fund value had grown to R100 million.

The fund has achieved an "exceptional" 57 percent return on lump-sum investments over the 12 month period ended January 31 1992.

'Plastic' kept the bad times at bay

STAR 29/2/92

DEREK TOMMEY

(58)

SOUTH Africans kept the bad times at bay at Christmas by waving "plastic" at them — and going into debt.

Figures issued by the Reserve Bank show that credit card purchases in December soared by R177 million to a record R1 092 million. This is almost double the December 1990 increase of R95 million, and compares with an increase of R11 million to R730 million in December 1989 and an increase of R44 million to R580 million in December 1988.

Bankers in the credit card business said a jump in transactions at Christmas time was normal, but expressed surprise at the size of the last December's increase.

Now they are waiting for the figures for January credit card purchases. As the banks often process much of the Christmas transactions only in January, the figures for that month's credit card usage is normally higher than the December figure.

In January 1989 the increase was R78 million making an increase since the end of November of R122 million or 22,8 percent. The following year in January 1990 the increase was R116 million. This brought the total increase since November to R127 million or 17,7 percent.

In January, 1991 credit card purchases rose by R99 million to R1 010 million which was an increase of R194 million or 23,8 percent from the end of November.

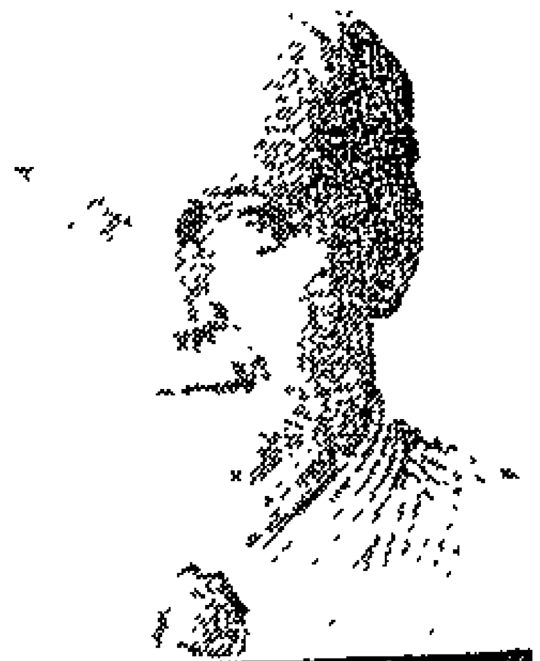
An indication of the greatly increased use of credit cards last Christmas is the percentage increase in December on November was 19,3 percent. This is not much less than increase in December and January in 1988-89 and in 1990-91.

However, South Africans normally make a huge effort in February to repay their credit card debts incurred during the season.

In Feruary 1989, outstanding credit card debts were reduced by R176 million or 26,7 percent. In 1990 they were reduced by R256 million or 27,9 percent, while in February, last year R310 million or 30,7 percent of the amount outstanding was repaid.

One wonders whether this will be the case this year.

MONEY MATTERS



MAGNUS *Heystek*

Assets' future less of a worry than inflation

(58)

STAR 29/2/92

HOW SAFE are your assets and investments in the new South Africa? What will happen to them under a black government? These are the questions most often asked today, especially among the middle and upper class. And whites particularly ask them with a sense of anxiety and downright fear.

The situation is not helped by headlines that proclaim "One-third tax on assets" should the ANC come to power. This suggestion, by a lone delegate at an ANC conference in the eastern Cape, has been turned into a full-blown gospel among many people.

Other rumours abound. A capital gains tax on everything from property and shares to luxury cars and deposits in bank accounts; confiscation and redistribution of so-called "white assets"; even retribution for wrongs of the past.

Personally, I do not believe the worst-case scenario sketched above will come to pass. I don't have any insight into ANC economic thinking, but I'm sure they have enough foresight not to contemplate any such moves, which would amount to economic suicide.

By now the ANC, or any black political organisation with a chance to be part of a future government, must have acquired enough wisdom to discard such thinking. But you might ask if the investment playing field could be altered by a future government, and in what way.

Dividend tax and prescribed assets

Firstly, I think a tax on dividend income coulc be reintroduced — even in the near future. This ex emption benefits only the very rich and those whc can afford to invest in the Stock Exchange. Very littl black money finds its way to the JSE.

In contrast, fixed investments in banks and build ing societies do attract tax, apart from the firs R2 000 of interest.

Politically, this is a very sensitive area, and I d foresee some form of income tax on dividends in th future. But that should not cause any loss of sleep: it was only about two years ago that dividends acquired their current tax-free status.

Secondly, we could see the reintroduction of some kind of "prescribed assets" in life and pension funds. Also, not something to cause undue worry: Government requirements about where large institutions should invest part of their money were also abolished only two years ago.

Thirdly, while some form of capital gains tax could be introduced in the near future, it will obviously apply only where actual accrual has enlarged a capital sum. Here, too, I won't lose much sleep.

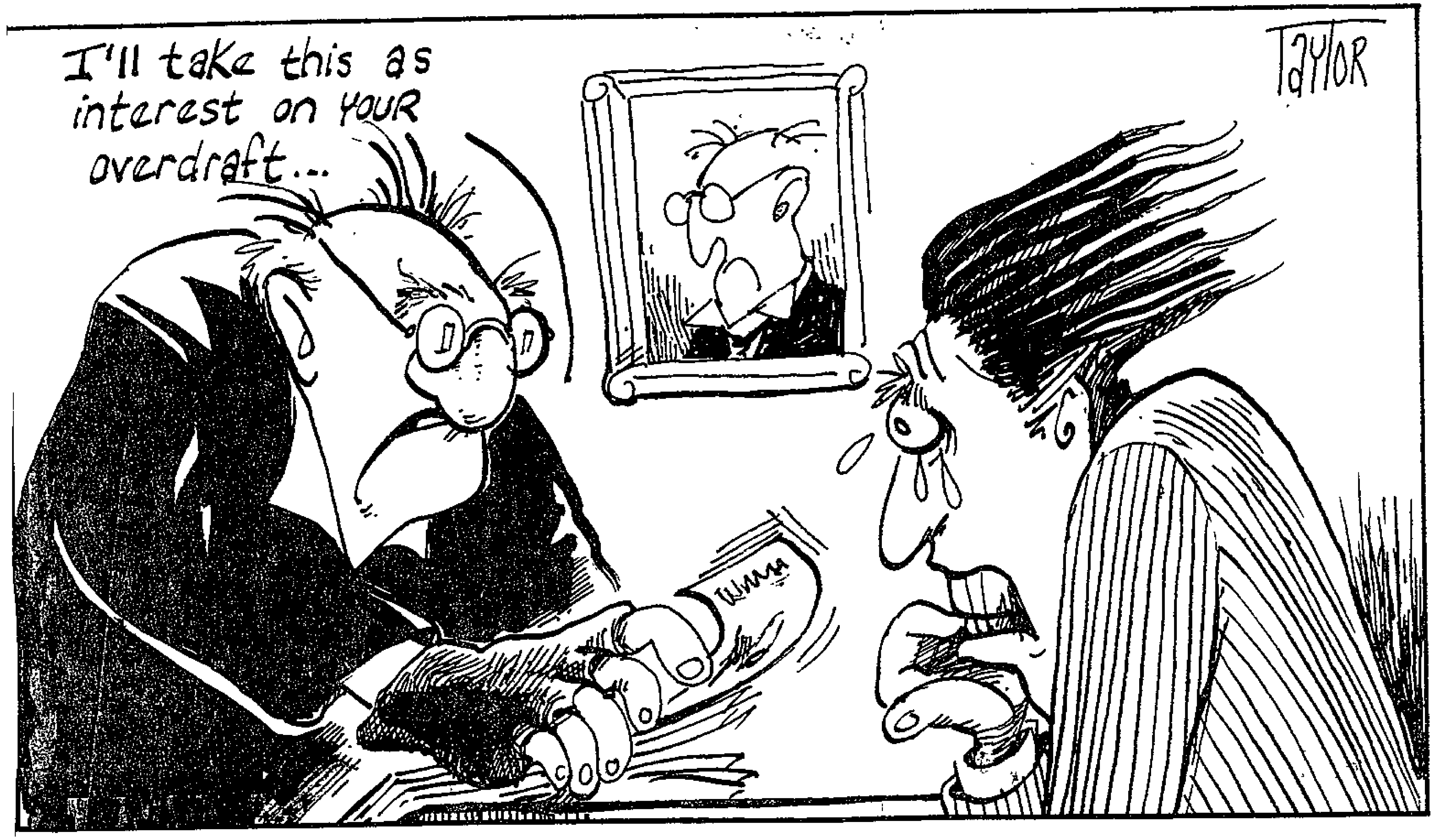
What does make me toss and turn is the continued threat of a growing inflation rate. This Government has not been particularly successful in keeping inflation down. So what chance does a future government — which is likely to use increased expenditure as its primary form of redistribution — have of keeping inflation in check?

TRUE REFLECTION: *After intense public pressure, banks have agreed to publish interest rates on bank statements.*

Public wins battle of overdraft rates

STAR 29/2/92

(58)



Finance Staff

THE battle of the overdraft rates has been won!

After a lengthy and sometimes acrimonious battle between banks on the one hand and the public on the other, all banks have now agreed to reflect current account interest rates on their monthly statements.

But it took a concerted effort by both Government and the public to persuade banks to reveal these charges.

Banks have tried hard and long to avoid publishing interest rates on bank statements — citing all sorts of reasons for not doing so — but in the end the public pressure was too great, and perhaps with a little cajoling from the authorities.

A further six banks have now agreed to reflect current account interest rates on their statements to their clients.

This announcement was made by Deputy Minister of Finance Dr Theo Alant earlier this week.

They are: First National Bank (from end February); Volkskas (not later than April 30); Boland Bank (end of March); French Bank (end of June); Bank of Lisbon (end of March); and Overseas Bank (from March).

In response to a letter from Dr Alant to the executive director of the Clearing Bankers' Association of South Africa, the director had said the following institutions already reflected the interest rates on statements:

Standard Bank, Bankorp, Nedperm Bank, ABSA, Bank of Athens and Firstcorp.

The overdraft rate-issue blew into a storm in December last year when Pretoria-based Jaap Spelt of Wespro alleged that more than 90 percent of the 5 000 cases that he investigated, were overcharging clients on overdrafts.

His allegations were hotly disputed by banks at the time and resulted in an urgent application by First National Bank to have an interdict placed on Mr Spelt to stop him making these allegations.

However, last week FNB announced that it had dropped its action against Mr Spelt, admitting that some mistakes were brought to its attention.

Mr Spelt's accusations centred around two issues. Firstly, he claimed, banks were overcharging clients on their overdrafts, sometimes in excess of the maximum rates as allowed by the Usury Act.

Mr Spelt also provided documentary proof that certain banks were charging a different (higher) rate than what the client thought he or she was being charged.

This was made possible by the complicated and lengthy calculations needed to accurately establish the correct interest rate.

Many banks, he added, kept interest rates high when the interest cycle turned downwards. While this was profitable for the banks it sometimes led to the demise of small businesses in particular.

The publication of all interest charges on overdraft rates is a welcome move, if not somewhat belated on the part of the banks. It was an issue that never should have developed the way it did.

The reaction from FNB was curious to say the least. While FNB's name was never mentioned in any report or radio broadcast on the issue, it took it upon itself to resort to an urgent court action to prevent Mr Spelt from repeating his allegations.

In the end the judge's ruling did not prevent Mr Spelt from repeating the allegations, but Mr Spelt had to specifically and by name exclude FNB from these allegations.

Banks can only benefit from this new policy of full disclosure on overdraft rates.

Now can one perhaps expect them to publish a complete breakdown of all bank charges? Or is this asking too much?

Safe unit trust plan is good entry point

STAR 29/12/92

(58)

How to break into the big

INVESTMENTS: *Commercial real estate offers unusual and profitable opportunities*

MEG WILSON

FOR most people, owning property means owning a house or, perhaps, a farm or stand at the coast where they intend to build their retirement home one day.

Some may venture to buy a second house or perhaps a couple of apartments to bring in some rental income, but there are not many individuals who have explored the possibility of buying into office blocks or shopping centres.

However, there are several ways to do just that and they are worth exploring as alternative investments to equities.

Probably the easiest way to get into the property "big time" is to put some money into a property unit trust (PUT).

These are something like ordinary unit trusts, in that you are buying a chunk of a JSE-listed portfolio and participating, with other unit-holders, in the income from that portfolio. In this case, the income comes from rentals in commercial buildings. The main differences are that the activities of PUTs are restricted to investment in shares of property-owning companies and that they are "closed-end" trusts.

This means that there are a set number of units which can only be increased through a rights issue to existing unitholders. It also means that there is no guaranteed buy-back of your units by the management company.

The advantages of PUTs are that they are particularly safe investments and that the entry level is relatively low.

PUTs are regulated in terms of the Unit Trusts Control Act and have to be properly managed by a professional team of real estate specialists.

This gives you the opportunity to invest in carefully chosen, well-located commercial properties, without specialised knowledge. But, because most PUTs specialise in offices, shops or factories, you can choose where to put your money, depending on your own feelings about the likely fortunes of say, the service, retailing or manufacturing sectors of the economy.

However, the diversified portfolios of property trusts (the actual buildings in which your money is ultimately invested) mean your risk is spread. In other words, rental losses from vacancies, or from a fall in geographic popularity, in one building will tend to be smoothed out by other buildings in the portfolio doing better.

Although there is no guaranteed buy-back of your units, they are marketable on the stock exchange through a broker. This makes the investment much more flexible than one directly into a building and means you can adjust your investment portfolio quite rapidly.

By law, you can buy a minimum of 100 units in a PUT. The most expensive unit quoted on the JSE this week cost R7,80, so a new investor buying the minimum number of units would have paid R780 — quite a small amount compared with investments in other property investment vehicles.

PUTs enjoy a special tax position. John Rayner, of stockbroking firm Frankel Max Pollack Vinderine, explains that neither the trust nor its underlying property companies pay tax, which means that dividends paid to the unitholders are free of tax at source.

However, the fact that PUTs do not pay company tax means that these dividends, usually paid every six months, are regarded as interest, and that individual investors will be taxed on them according to their own marginal tax rates. At the moment, only the first R2 000 a year of interest income is tax-free.

If you have a minimum of R1 000 to invest, you could put it into a participation mortgage bond (partbond). These are property-related schemes run by several financial institutions as a means of raising mortage finance for large property purchases from a number of investors.

In other words, your money is a "loan", secured by property, to the partbond company, which will pay you interest. It is important to understand that this is not an investment in property as such.

The main advantages of partbonds are low risk and high interest rates. The low risk arises from the fact that partbond administrators are conservative in estimating the value of properties over which they grant bonds. They usually advance between 60 and 65 percent of a valuation based on capitalisation of income flow from the building, rather than its current market value.

The high interest rates paid to partbond investors, usually quarterly or monthly in advance, make them popular as a secure source of high income.

The major disadvantage is that there is no capital growth for the period of the investment, which is usually five years. It is certainly worth considering how inflation will erode this capital and also that the returns on partbonds are, like those on PUTs, fully taxable.

Probably the most exciting way to invest in property is in a syndicate, where you and a few others actually buy your own building.

Such investments provide both capital gains and income and are becoming increasingly popular among those wishing to beat both inflation and taxation.

But, and it's a big but, you need to be sure exactly what you are getting into. The entry levels are high (a minimum investment of R10 000 is required) and the industrial and commercial property markets are highly-developed and complicated and require a great deal of expertise.

So, while there is nothing to prevent a group of private investors from buying or even building a shopping centre or factory complex on their own, it is wiser to have professional management on board.

In a syndicate, the property is usually owned by a sharebloc company, of which you, the investor, become a shareholder. Thus you actually own a specific "piece" of the building.

The tenants in the building pay rentals, which are passed on to the investors after deduction by the management company of running and maintenance costs, as well as a small administration fee. This gives you a regular income, usually 11 percent a year, payable quarterly in arrears.

However, the value of the building, as a saleable commodity, also rises over the years, boosting your capital invested.

Professional management ensures that the risks are reduced. The reputable institutions offering syndication schemes have experts to identify and buy buildings with good potential, and to optimise this potential in terms of keeping it fully occupied and properly maintained.

The major advantage of a syndication is that you can negotiate the sale of your share of the building to any other person at the market value at any time.

The capital gains on such sales are often exceptional (and not yet taxable).

P.T.O. for Picture

MD earns his toughness tag

MEET Future Bank managing director Neville Watchurst and you meet a hard-nosed banker. 58

He has to be tough for the success of the bank rests on the wealth it creates and its performance in the marketplace.

Watchurst cautions that the Future Bank is not an "overnight thing".

But there is an interesting story to tell about the findings of his research team during market testing in October last year.

Finding a name for the bank was no easy task, he recalls. Citizen 1/3/92

"It's an unusual name but very appropriate. Our research shows that the name 'Future Bank' was suggested by the respondents."

In research conducted in Cape Town, Durban, the Eastern Cape and the Reef, more than 500 face-to-face interviews were conducted.

In most cases the name "Future Bank" came out strongly.

Another aspect made clear by the market research was that "there was no room for another black bank in this country".

"But there was room for a bank that would cater for all South Africans.

"The established banks in this country cater largely for the white market and corporate South Africa."

Watchurst said these banks offer saving accounts to blacks, but "loan facilities are few and far between".

"From that we decided to come up with some facilities which would enable the black community to participate in the mainstream economy."

But this does not mean Future Bank will grant loans wholesale. Accepted banking rules will apply.

Watchurst adds that the primary concern of Future Bank's main sponsor, First National Bank, is to create wealth for black shareholders.

"That is why we have the Foundation for African Business and Consumer Services (Fabcos) as the biggest shareholder. The Get-Ahead Foundation is another shareholder. That is really the philosophy behind the bank."

Caring counts in rands, cents

By ZB MOLEFE

Cipress 1/3/92

GREAT companies worldwide, marketers will tell you, have mastered the art of defining their business.

Take the American photo giant Kodak, which will tell you it sells memories. Or the German carmaker Mercedes, which will tell you it sells safety.

A defined business is the advantage Future Bank general manager for operations and marketing Phillip van den Heever believes his bank has in abundance.

"Simply, we are (market) focused – unlike other banks, who are all things to all men.

"The essential difference that this bank will have is warmth and care. Our whole marketing effort is primed for that.

"I know 'We care for our customers' are easy words to say, but I think the way we treat our customers, at the end of the day, is going to determine how successful this bank is."

Van den Heever says this approach must not be interpreted to mean that the Future Bank is in a position "to approve every man who walks through the door".

"We are largely going to apply credit standards which have evolved over the years and applied to banking. But the fact that we are focused means we can develop new schemes and utilise instruments that are already in the black market – like the stokvel-type principle."

58

The bank, he says, will be "providing credit to people who would otherwise have no access to credit".

"At this stage shareholding is still closed. There is indirect shareholding through affiliates like the Foundation for African Business and Consumer Services (Fabcos), where there are a lot of their members who technically own Fabcos."

But he stresses that although the organisation holds a large portion of shares in the bank, Future Bank is not a Fabcos Bank.

"We are a bank for everybody. Whether a member of the National African Federated Chamber of Commerce (Nafcoc) or Fabcos. That is what we must get across."

There is another phrase which makes Van den Heever uneasy. This is that the Future Bank is a black bank.

"We will provide products that satisfy both areas (blacks and whites). At the end of the day, the bank must be profitable. We can't develop this bank unless we are profitable."

Syfrets is tops in pension returns

S[Times] (Buss) 1/3/92 (58)

Business Times Reporter

SYFRETS Managed Assets emerges as the top investment team in the Alexander Forbes actuarial survey of investment performance.

In the survey, which can cause tens of millions of rands of pension money to move from one investment house to another, Syfrets fared best over one, three, four, seven, eight and nine years, judged by the return on a single payment.

There are two Alexander Forbes surveys. The present one monitors pension funds managed by non-life offices.

Liberty Asset Management and Southern Asset Management are included because they run these pension funds in the names of client ones. They are off balance sheet.

The life company survey will be published next week.

Traditionally, the non-life managers have outperformed the life offices.

The return on an investment in Syfrets portfolio yielded 34,7% over one year compared with runner-up Standard Merchant Bank, which scored a return of 32,9%.

Weakened

Last over one year was Foord & Meintjes, which gave a return of 21,2% — still better than inflation.

Syfrets' closest rival overall was Standard Merchant Bank, which came first over five years and second over one, four and seven.

Security Portfolio Management came second to Syfrets over three years, th[e] only period for which it wa[s] monitored.

Allan Gray Investment[s] short-term performance ha[s] weakened. It ranked in th[e] top three over periods fro[m] five to eight years, but was lowly ninth over three year[s]. Over one year, Allan Gra[y] ranked 10th out of 11, return[-]ing 23% compared with Sy[-]frets' 34,7%.

Senbank took the wood[en] spoon over three years a[nd] Momentum was second la[st].

Syfrets also excels in Hu[gh] Lamprecht's survey of u[nit] trust managements. It cam[e] third among unit trust pe[r]formers last year and w[as] top for three years.

In June the Syfrets Grow[th] Fund will have been arou[nd] for five years.

Fund manager Tony Gi[b]son is optimistsic that Syfre[ts] will rank first or second.

350Nm at a low 1 950rpm.

All models are fitted with the Procon-ten safety system

have been sold worldwide. About 2 200 are sold each year in SA.

House loan lifeline

STANDARD Bank has launched an insurance policy to at alleviate the effects of retrenchment on home owners. (58)

The plan provides cover if the borrower is retrenched from full-time employment or if his company closes. (58)

The policy is available to those aged between 18 and 55 who have been with the same employer for a year and earn at least R2 000 a month. They must also have a Standard Bank home loan. S/Times (BUSS) 1/3/92

S/Times (BUSS) 1/3/92

Investing in the future

C/Press 1/3/92

58

THE Future Bank has struck a note for gender equality in the workplace with the appointment of marketing manager Lindiwe Kubeka.

She sees nothing unusual with the bank appointing a female in this important area of operation.

"I'm bringing expertise and knowledge to the job. What drives me essentially is that I want to make the bank a success."

In fact, gender equality is one of the ethics the Future Bank is building into its employee relations.

TOP JOB ... Dynamic Lindiwe Kubeka.

Operations and marketing general manager Phillip van den Heever says: "People must be people, they must be treated the same."

Kubeka, a mother of three, grew up in Pimville, Soweto.

After school she cut her teeth in marketing, working for a number of companies. Her last position was working as a marketing analyst for a well-known company manufacturing multi-purpose plastic kitchenware.

You think you are not being diplomatic when you ask her age and she shoots an answer: "I'm 33 years old. I'm not scared of my age. Maybe when I hit 40 I'll start getting scared."

Who says a woman never tells her age?

FUTURE BANK FEATURE

Mabuza's at the wheel

S CPress 1/3/92

(58)

FUTURE Bank, South Africa's newest financial institution, opens its doors for business tomorrow with chairman Jabu Mabuza at the helm.

Self-confidence and determination led to Mabuza'a rise to deputy managing director of South Africa's black economic miracle, the SA Black Taxi Association (Sabta).

Mabuza sees Future Bank as catering for black business, with its origins rooted in black business aspirations.

The bank, he says, is the product of years of struggle by black business.

He reminds you of where the black taxi industry was seven years ago.

In those days it was a struggle for blacks to enjoy necessary business tools like bank credit

It was not unusual then for a black taxi owner to struggle to buy a R15 000 taxi

Loaded questions were asked about his credit-worthiness.

What security did he have? Did he have any shares in a financial institution? Did he own a house?

"Banks asked such questions with the full knowledge that blacks did not have what was asked of them

"This proved to me that bank credit at the time was not meant for blacks," Mabuza said.

Another problem area in these credit transactions, which stacked the odds against blacks, was the 60 to 70 percent deposit demanded upfront.

"Sabta discovered that whereas the government was open about its policy of discrimination against blacks, big business was saying so much about the inequalities of the system but were in reality the worst exploiters."

That is when Sabta came to the rescue.

Through some hard bargaining Sabta and a leading bank became involved in an innovative credit financing scheme.

Mabuza glows with pride at the memory

"We brought R5-million into that bank.

"Within a year that figure became R25-million, then R100-million, until we hit R300-million.

"No wonder in 1989 the bank witnessed a situation where bad debt was just 00,1 percent.

"At that stage we were the best book they ever had."

One cannot help being impressed.

Much of the credit must go to Mabuza, 34, who has been in the taxi industry all his "working life".

Mabuza's University of the North law studies were abruptly ended when his driver father was retrenched from a Johannesburg civil engineering company and he went full-time into the taxi business in 1983 to support his family

By 1985 the streetwise Mabuza had bought his first taxi.

The following year he was joint managing director of a travel agency – and owned three taxis.

His latest big challenge is to make Future Bank a success

The words of US poet Edgar Guest describe Mabuza's conviction.

"There are thousands to tell you it cannot be done/ There are thousands who prophesy failure;/ There are thousands to point out to you, one by one,/ The dangers that wait to assail you/ Just take off your coat and go to it;/ Just start to sing as you tackle the thing/ That 'cannot be done', and you'll do it."

The bank is represented in Johannesburg, Pretoria, Durban and Bloemfontein.

IN THE DRIVER'S SEAT . . . Future Bank chairman Jabu Mabuza has come a long way since his days as deputy managing director of Sabta.

Consumers 'overextend' credit limits

BDay 2/3/92

SHARON WOOD

CASH-STRAPPED credit card holders are spending above their limits and failing to repay their minimum monthly payments, bankers say.

The pattern of repayment has deteriorated during the last two years and has become even worse in the last few months, Standard Bank card division GM Alistair Graham says. (58)

"The level of arrears on credit card payments show customers are becoming overextended."

Credit cards are only a small part of the personal debt market and most debt is found in the form of fixed-term payments, such as HP and revolving credit schemes.

"If they don't pay, we chase them," says Graham, whose bank has fairly lenient credit arrangements with customers.

"We contact clients and ask if they are having problems repaying their debt. If they are, we ask them how much they can afford to pay and reach an agreement on the amount to be repaid monthly."

An FNB spokesman says there is no doubt that consumers are cash-strapped. But FNB has anticipated this and introduced controls on its Firstcard to reduce problems. He would not comment on what the controls were.

Credit card payments had deteriorated during the last 18 months but FNB did not have a "terrific bad debt problem".

MONEY MARKETS by Sheridan Connolly

Scramble as market shortage dips

B/Day 2/3/92

THE month-end scramble in the local money market got under way towards the end of last week with the market shortage dipping sharply to R843m on Thursday from a previous R1,76bn.

Dealers attributed the sharply lower market shortage to tax payments falling due. They also said there was a lot of money flowing through the system to finance a special rights issue by Gencor.

Meanwhile, the Reserve Bank continued its liquidity-draining operations last week with a series of special Treasury bill (TB) tenders. On Friday the Bank's special three-day TB tender was sharply undersubscribed, with the Bank receiving only R820m at an average rate of 16,39% for its R1bn worth of bills on offer.

Dealers said the bad response to the Bank's special issue could have been due to the relatively high rate of 16,39%. Corporates could get similar rates on call and, at month end, the smaller institutions did not have that kind of money lying around. With hectic month-end activity and general confusion over how cash flows will go, the Bank's offer was not all that attractive.

Hopes of a cut in official interest rates are still running high, but most analysts expect Reserve Bank Governor Chris Stals to hold out until after the reform referendum on March 17 and until he has seen the fiscal thrust of the March 18 Budget.

February's inflation rate is due out about three days after the Budget, so Stals could wait for some signs of success in the inflation war.

58

Turnover suffered on the capital market as traders were diverted by two contrasting events — the political nervousness in the run-up to the referendum, and the midweek World Cup cricket match in Australia. The screens players were watching tended to feature scores and bowling analyses instead of prices and yields. Confidence that the referendum would result in a "yes" majority kept yields on the benchmark Eskom 168 comfortably below the 16,5% level.

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Sanlam transfers Harare business

STAR 2/3/92

CAPE TOWN — Sanlam is to transfer its life assurance business in Zimbabwe to the Southern Life Association.

The transfer, subject to the approval of the authorities, comes 10 years after Sanlam stopped marketing policies in Zimbabwe.

Chairman Dr A J van den Berg says the transfer will benefit all policy-owners. It would be more practical and cost efficient to perform the administration from within Zimbabwe.

Chief actuary Chris Swanepoel says Sanlam has liabilities under more than 5 000 policies in Zimbabwe, with premium income totalling R1 million.

The Southern Life Association in Zimbabwe is registered by Southampton Assurance. — Sapa.

This partner won't take over

STAR 2/3/92 (480) (58) (30)

Many businesses begin with one partner with a business concept and a provider of capital who may have no other direct business involvement.

This is not always the ideal solution for the active entrepreneur who would prefer the long-term prospect of owning the major share in the business.

Option

An interesting aspect of the approach taken by venture capital and business development company, Technifin, is that regardless of the amount of share capital they take in a new business, it is prepared to sell its shareholding within a period of seven years.

The entrepreneur is given the first option to buy those shares.

The percentage shareholding taken by Technifin depends on the amount to be invested and the company's potential.

The Technifin team assists in evaluating the business proposition to establish its commercial viability which must be very substantial before Technifin becomes involved.

Some of the successful applicants which have launched thriving businesses through Technifin started out with no more than a drawing on a single sheet of paper.

How does it work for Technifin? Lourence Greyvenstein, CEO, says:

"We are starting out with an entrepreneur or inventor who may not have a previous track record in business.

"There are two or three years of development time during which we are outlaying venture capital and refining the business plan.

"Investing in start-ups is a long-term activity with the main purpose being to create a valuable business.

"Our profit comes from the rising value in our equity."

Technifin has also developed a very creative financing method for the bigger business which wants to develop and launch new products.

Unique

"The problem faced by the company with public shareholders and bank finance is that neither of those groups are keen to have their investment put into a high-risk area such as new product development.

"This expenditure is not a welcome item on the balance sheet.

"What we are suggesting is a unique risk-sharing method without acquiring shares in the company — we put in 100 per cent of the finance and share the commercial risk — but the company takes the full responsibility for successful completion of the product.

"Instead of an on-balance-sheet loan to the company, this transaction constitutes a contingent liability.

"If the company keeps its side of the bargain, the contingency simply falls away.

"If the product succeeds, in return for Technifin's capital we earn a levy on sales for a specific period of time.

"This period is in two phases: the time it takes to recover the capital we put in, and a second phase of equal duration to the first which constitutes our return on investment.

"The beauty of that is, the more successful the product, the faster the money is repaid."

Mutual and Federal shows short-term can be profitable

STAR 3/3/92.

By Derek Tommey 58

Short-term insurers have been having a hard time lately.

So the 51 percent increase in Mutual and Federal's attributable profit to R68,1 million for the six months to December and 25 percent increase in interim dividend to 25c a share will come as a pleasant surprise to shareholders.

MD Ken Saggers says that a number of unusual factors were behind the higher profits.

First and foremost was the absence of natural catastrophes.

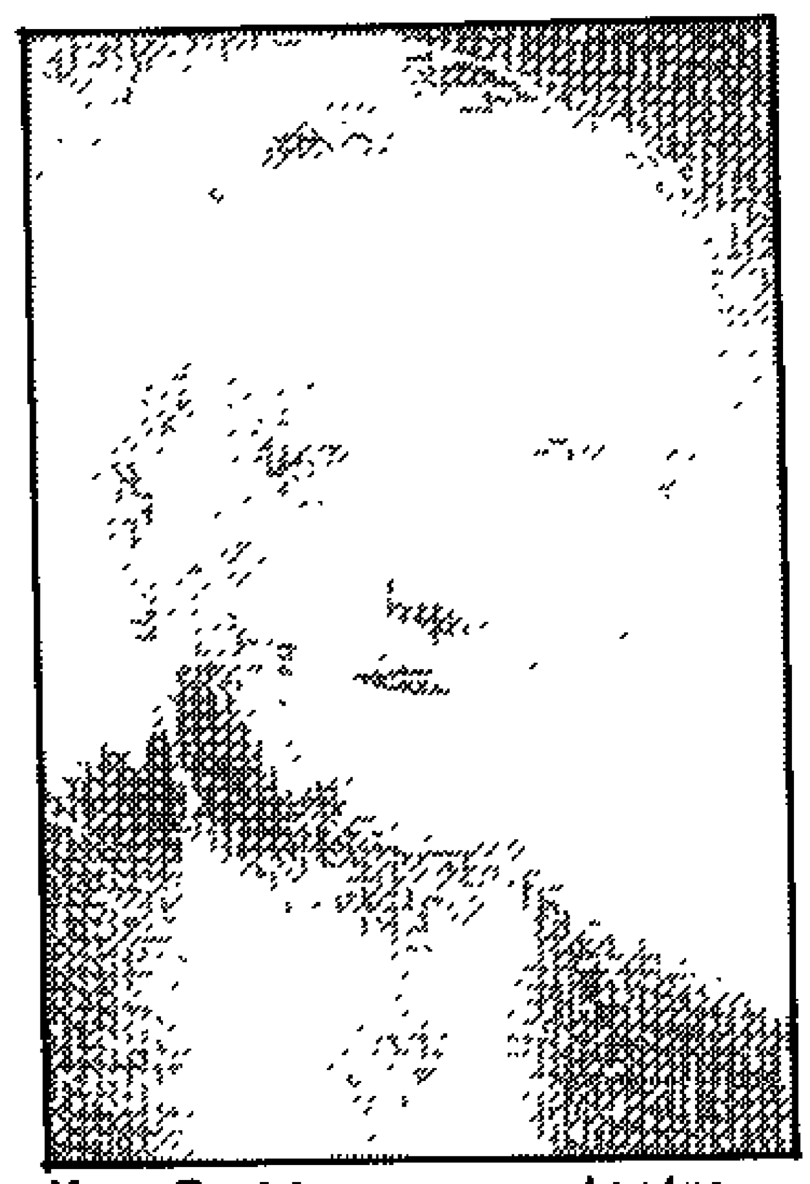
A year ago the company had to pay more than R20 million in losses arising from the Barberton hailstorm.

"It is a sobering thought that a single similar event could eliminate the company's entire surplus."

A second factor was the acquisition of National Employers' General Insurance (NEG) 18 months ago, which had proved to be a considerable success. The group is now reaping the full rationalisation benefits of the merger.

A further contributory factor was the release of reserves after the run-down of business formerly written by NEG.

Mr Saggers is concerned at the alarming rate of growth of motor accidents and crime.



Ken Saggers . . . catastrophe-free year.

However, his major concern is the corporate market with its excess capacity and uneconomic premium levels.

He says Mutual and Federal's improved profit followed the more realistic rating policies adopted by the SA industry in the past two years.

He is hoping the recent disastrous worldwide underwriting levels will result in a return to more appropriate rating levels.

Mutual and Federal was able to hold the increase in expenses below the inflation rate and achieved a 26 percent increase in investments.

The asset base, which exceeds R2,2 billion, and the 130 percent solvency margin, underscore the group's financial strength.

Mr Saggers says the effect of VAT has been less than expected and that the group's decision to absorb the bulk of these costs without resorting to a general premium increase has been vindicated.

Gross premiums in the six months rose 10,9 percent to R600,1 million, while net premiums increased 11,5 percent to R505,7 million.

The underwriting surplus before VAT was R30,5 million (R3,5 million), while VAT took R5,1 million (nil).

Investment income rose 26,8 percent to R70,7 million and pre-tax income increased 61,5 percent to R96,1 million.

Tax took R28 million (R14,3 million), leaving net income of R68,1 million (R45,2 million).

Investments at market value at December 31 were worth R2,09 billion, against R1,95 billion at the end of last June and R1,54 million at the end of December 1990.

Total assets after providing for current liabilities were R1,57 billion at the end of December, against R1,46 billion at the end of last June and R1,14 billion at the end of December 1990.

Reserve Bank accountable to all

The governor of the Reserve Bank, Dr Chris Stals, says the accountability of the Reserve Bank is towards the total community and its responsibility is to create a stable financial enviroment in which maximum economic growth can take place. STAR 3/3/92

Speaking at the official launch of the Pretoria chapter of the Association of Black Accountants of Southern Africa (Abasa), Dr Stals said savers, investors, consumers and traders would only be able to take rational decisions on the management of their finances if they had trust, faith and confidence in the banking institution. (58)

He said accounting institutions such as Abasa had a role to play in this regard.

Referring to financial management risks, Dr Stals said while the bank was not prepared to interfere with informal institutions like stokvels, members of such institutions should bear in mind that the Reserve Bank would not accept any responsibility for the mismanagement of funds.—Sapa.

Mutual & Federal dividend up 25%

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BDay 3/3/92

SEAN VAN ZYL

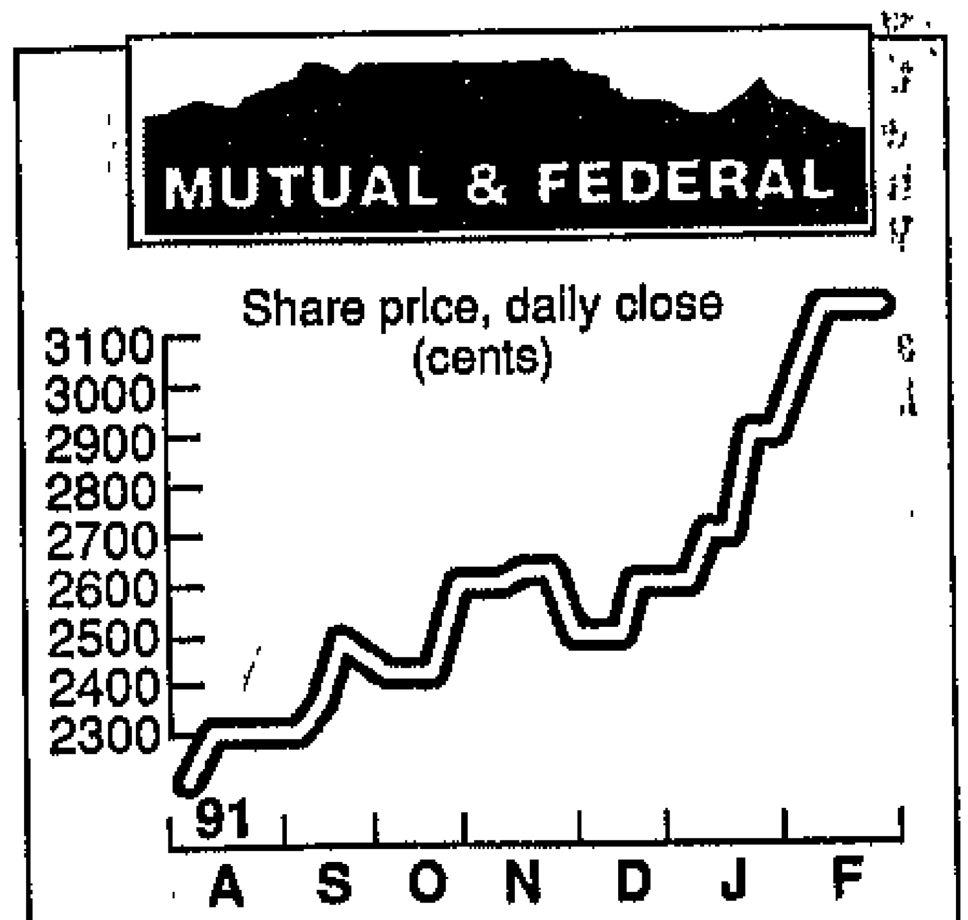
MUTUAL and Federal Insurance (M & F) has rewarded its shareholders with a 25% rise in its interim dividend following a 51% jump in half-year profit as conditions in the short-term insurance industry started improving.

The insurer's taxed profit rose to R68,1m for the six months ended December, equivalent to earnings of 146c (1990: 96c) a share.

A dividend of 25c (20c) has been declared, lifting the cover to 5,8 times compared with the previous corresponding period's 4,8 times.

M & F wrote business worth R600,1m (R541m) for the six months, translating into net premium income of R505,7m (R453,4m). Investment income rose by 26% to R70,7m (R56m) while the underwriting account staged a remarkable recovery on the previous year by reflecting a net surplus of R25,4m (R3,5m).

M & F MD Ken Saggers said the favourable position of the underwriting account was due to "more realistic rating policies" and the absence of major natural catastrophes. He noted M & F had incurred a R20m underwriting outflow — arising from damage claims after a Barberton hailstorm —



Graphic: LEE EMERTON Source: I-NET

in the first six months of 1990: "It is a sobering thought that a single similar event could eliminate our entire surplus,"

While a more positive trend seemed to be emerging in the short-term insurance market, following the poor underwriting conditions of the past two years, Saggers said insurers still faced "considerable challenges" in the light of the high incidence of theft, arson and fraud.

In particular, he was concerned with the

☐ To Page 2

Dividend

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inadequate rate levels available in the corporate market. "Despite the overall positive result, it should be noted that the commercial and industrial portfolios are not operating within profitable margins and rates and terms within these sectors require adjustment."

He also expressed concern about the incidence of vehicle accidents and theft.

Saggers said M & F's favourable results for the period reflected the company's prudent underwriting policy, which also resulted in its solvency margin rising to 130% compared with the previous period's 110%. The selective underwriting of new business also resulted in the slower growth in premiums, he noted.

Saggers said M & F's performance was aided by the acquisition of National Employers' General Insurance (NEG), which was concluded in 1989.

M & F disclosed net income of R68,1m (R45,2m) for the period while its investments rose by 36% to R2bn (R1,5bn). The directors cautioned that the company's strong growth in the first half of the trading year would not necessarily reflect its performance for the full year because of the industry's unpredictable nature.

Bank makes claim against Nedbank's 'negligence'

58

B/Day 3/3/92

SUSAN RUSSELL

A $2,3m damages claim brought against Nedbank by a Canadian financial institution, which alleges it renewed a line of credit to ailing fertiliser giant Triomf on the basis of incorrect information negligently supplied by the bank, began in the Rand Supreme Court yesterday.

Standard Chartered Bank of Canada claimed that if Nedbank, which was Triomf's banker at the time, had furnished a report correctly reflecting the group's financial position the line of credit would not have been renewed.

The report was submitted to Standard Chartered Bank through its SA agents, Standard Bank, in November 1985.

About seven months later Triomf collapsed, and was provisionally liquidated in July 1986, owing Nedbank more than R300m.

Nedbank is contesting the claim and contends that at the time the report was furnished Triomf was trading in normal circumstances and there was no reason to believe it would not continue doing so.

In his opening address before Mr Justice Roux, counsel for the Canadian bank, P Solomon SC, submitted that although Triomf was already in severe financial straits, Nedbank reported that the group was trading normally and was able to meet its commitments.

Solomon submitted that at the time the report was issued Triomf's debt to Nedbank amounted to R301m and that its long-term liabilities had increased within 18 months from R58m to R155m.

He said at the same time Nedbank issued the report, it refused to give Triomf R5m credit to pay for raw materials while knowing that without the loan the company would cease trading.

It should have been clear to a reasonable person in Nedbank's position, Solomon submitted, that the party asking for the report wanted it to decide whether or not to extent credit to the company.

Nedbank, he said, had been negligent in not declining to issue a report or otherwise furnishing one that correctly reflected Triomf's financial position.

Three more killed in Reef train attacks

B/Day 3/3/92

WILSON ZWANE

TWO men were killed and 10 seriously injured yesterday morning when armed men indiscriminately attacked passengers on a Johannesburg-bound train, Soweto police spokesman Lt-Col Tienie Halgryn said.

The attack occured at about 5.20am between Soweto's Dube and Phomolong stations.

Ngobeni said the injured were taken to Baragwanath Hospital where nine were treated for hack and stab wounds. One was treated for a bullet wound.

Halgryn said the police were investigating the incident.

In another incident, a man's body was found between Benoni and Dunswart stations on the East Rand. The police said the man, who sustained head injuries, apparently had been thrown off a train.

In another development, a three-member committee of inquiry will question witnesses about last week's East Rand AK-47 attack on a minibus in which four people died.

Sitting on the committee, which is an offshoot of the Goldstone Commission of inquiry into public violence and intimidation, are advocate Solly Sithole, former SA Perm MD Bob Tucker and Natal attorney Lilian Baqwa.

Political comment in this issue by Jim Jones. Newsbills by Cecile Reynierse. Headlines and subediting by Denyse Armour. All of Times Media Ltd, 11 Diagonal St, Johannesburg

AVF rights issue seeking R42,8-m

STAR 4/3/92

By Derek Tommey (58)

Shareholders in AVF — Anglovaal's assurance and financial services holding company — are being asked to subscribe R42,8 million for rights to new shares at 140c a share.

With the price standing at 130c, anyone taking up their rights will be demonstrating an act of faith in the company and can also be expected to scrutinise today's interim report for guidance.

Th AVF report, in fact, suggests their faith could be justified.

Although the report does not give directly comparable figures, it shows that the net premium income and annuity considerations of AVF's underlying insurance investments were growing at about R23,7 million a month in the six months to December, against R15,7 million a month previosly.

This suggests the group's pre-tax profit from insurance in the current 12-month period should be significantly better than the R6,6 million reported for the 14 months to last June.

The company gives pre-tax profit for the six months of R2,86 million.

But this seems to be simply a pro-rata extension of the figure for the previous 14 months.

Bearing this out is the statement that the company will only be paying annual dividends because these cannot be declared until after the completion of the annual actuarial valuation of the assets of the life fund. This suggests the insurance profits can also only be calculated annually.

To this has to be added income from the Board of Executors, which increased its earnings a share by 24 percent in the year to last September.

Earnings attributable to AVF shareholders for the six months to December are given as R3,87 million, equal to 3,9c a share.

Political uncertainty causes drop in demand

B/Day 4/3/92 (58)

Reports by PETER GALLI

UNCERTAINTY about future political developments has caused a drop in demand for residential property, but agents differ on the extent of the decline.

Aida Real Estates chairman Aida Geffen says some people who were about to make an offer for a property withdrew when President F W de Klerk called the referendum.

"There are less buyers on the market than ever before.

"This situation is not expected to improve markedly even if there is a yes vote as people will still wait for other developments," she says.

The wait for the outcome of Codesa is an inhibiting factor, and the market is expected to remain depressed for at least another year, she adds.

Should there be a "no" vote, the bottom would fall out of the market as there would be a glut of sellers and very few buyers.

Seeff O'Riain Transvaal MD Bernard O'Riain agrees with this, but says this will only be a short-term situation as people will still want their own homes.

His group has seen a slight reduction in buyers and showhouse visitors, but nothing of any real note. The reason for this is twofold, he says.

"Firstly, there are those who believe prices are depressed and now is the time to pick up bargains. Secondly, there are those who want to own property despite political factors."

The drop-off in activity is being felt mainly in the Johannesburg area and in the upper market range above R800 000. The market under R400 000 is less affected, he says.

"People who would normally want to upgrade their homes are now buying at the same level or at a lower price, to minimise their risk. This trend will, however, filter down to the rest of the country," she says.

O'Riain says there is a volatile upper market, but deals are still taking place. While there is a difference between what the seller wants and the buyer is prepared to pay, the sellers are tending to drop their prices.

SA Property Owners Association (Sapoa) executive director Brian Kirchmann has called for a "yes" vote on March 17.

"Sapoa believes in the inalienable right of all South Africans to own property in a free market system." The continuing dialogue on SA's future was one of the ways this could be assured.

Brokers' commissions under review

LINDA ENSOR

CAPE TOWN — The structure of commissions paid to life assurance brokers and agents is under review by the Financial Services Board before being incorporated into the proposed new life assurance Bill.

The life industry and the board are concerned that different commissions paid on retirement annuities (RAs) and life policies are a disincentive to the marketing of RAs. This is counter to government's encouragement of self-provision for retirement.

Life Offices' Association director Jurie Wessels said the commission paid to brokers for the sale of life policies was concentrated at the beginning of the policy's term while that paid on RAs was spread. This acted as an incentive for brokers to sell life policies.

He said RAs' share of life products sold by the industry had declined since the early 1980s when the differentiated commission structure was introduced. Of 34,5% of recurring new business (including recurring premiums on ordinary policies) in 1980, recurring premiums on RAs dropped to a low of 12,9% in 1987, rising slightly to 15,74% in 1990.

The board's long-term insurance registrar Oppie Opperman said commissions were the only unresolved issue of the proposed new Bill.

The third draft of the Bill was recently distributed to the industry for comment before end-April. The only major change has been to incorporate the consumer protection provisions into the main body of the Act rather than to have these promulgated by way of regulation.

Opperman said a fourth draft would be sent out in June July and the final version would be presented to Cabinet in August for submission to Parliament next year.

It is envisaged that the new Act — which has been on the drawing board since 1987 — would take effect from January 1 1994, or earlier if possible.

Avins chalks up earnings of R1,4m

B/Day 4/3/92

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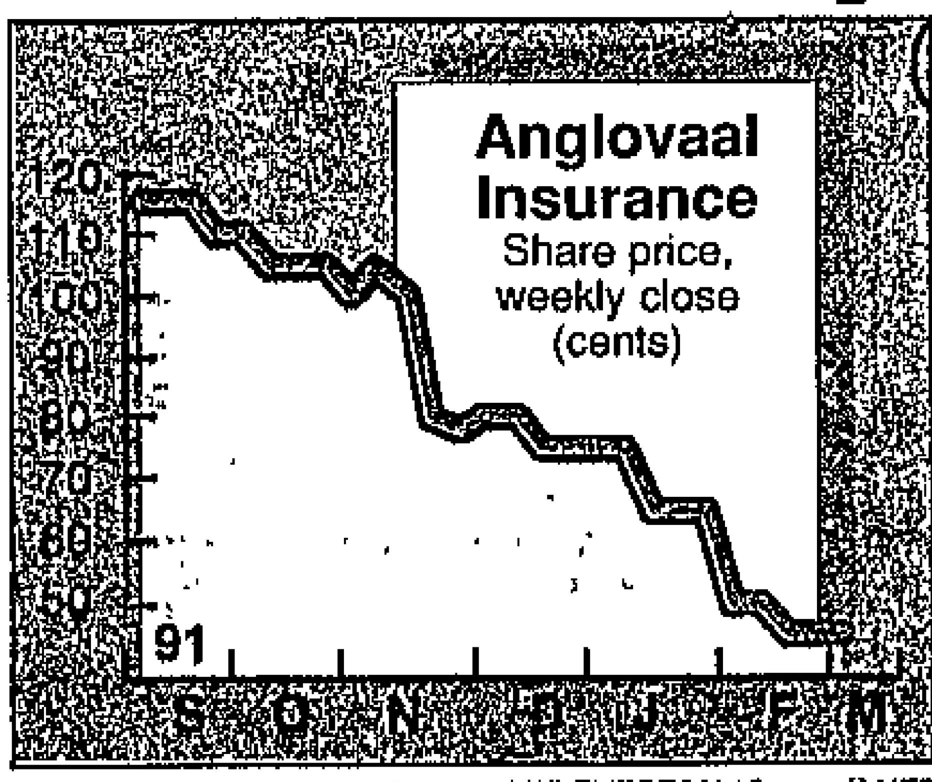
SEAN VAN ZYL



Graphic LEE EMERTON Source I-NET

THE Anglovaal Group's insurance interests housed under Anglovaal Insurance Holdings (Avins) disclosed attributable earnings of R1,4m, equivalent to 0,95c a share, for the six months ended December.

This follows a period of rationalisation during which Crusader Life performed satisfactorily, but unlisted life assurer AA Life was dogged by problems which would prevent it from recording any growth in profit for the full financial year.

Because of the restructuring and a

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Avins

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change in year-end to June 30, no meaningful comparable figures are available.

The directors said in a statement that shareholders would in future have to wait for the June year-end actuarial evaluation of AA Life and Crusader Life before their single annual dividend was declared.

However, Crusader Life would pay a dividend of at least 20c a share, the directors said.

By contrast, AA Life was in the throes of consolidation and was unlikely to disclose any growth in earnings or pay a dividend for the current trading year.

Unprofitable channels of distribution had been closed and overhead expenditures reduced. Directors expected AA Life would improve its performance and contribution to group profitability.

Pegasus Assurance, the group's UK life operation, was still in an early stage of development and was unlikely to pay a dividend before its December 1993 year-end, the directors said.

Parent company AVF Group posted attributable earnings of R3,9m, equivalent to 3,9c a share for the six months.

Avins' net premiums and annuity considerations for the six months amounted to R142,2m. About half of the group's R2,8m pre-tax profit was paid to outside shareholders, resulting in income attributable to ordinary shareholders of R1,4m. Avins' life funds grew by 17,4% to R391,3m (June 1991: R333,2m) for the six months while the market value of investments rose to R412,2m from R359,5m.

Avins now holds about 32-million of AA Life's shares and 18,1-million shares in Crusader Life following their respective rights issues. The purchase of the additional shares cost Avins R36,9m.

AVF's stake in Board of Executors has risen to about 18% following the conversion of loan stock.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Two financial institutions: insolvencies

55. Mr D H M GIBSON asked the Minister of Finance:

(1) Whether two financial institutions, the names of which have been furnished to the Minister's Department for the purpose of his reply, went insolvent recently; if so, what are the names of the institutions;

(2) whether any directors or officers of these two financial institutions are to be charged criminally, in terms of any statutory or other provisions administered by his Department, in respect of any alleged offences arising from the insolvencies of these institutions; if so, what are the relevant details?

B142E

The MINISTER OF FINANCE:

(1) Masterbond Participation Bond Trust Managers (Pty) Ltd and seven affiliate companies were placed under provisional curatorship between 21 October 1991 and 31 October 1991. These companies are not financial institutions.

Cape Investment Bank Limited was finally liquidated on 14 May 1992. This was a registered deposit-taking institution.

(2) (a) Information indicating that offences or contraventions were possibly committed by any person employed by or associated with the companies concerned, will be submitted without delay to the Attorney-General of the Cape for consideration of criminal prosecution as soon as possible.

(b) An investigation in terms of sections 417 and 418 of the Companies Act, 1973, was upon the insistence of the Registrar of Deposit-taking Institutions, requested by the liquidator of Cape Investment Bank Limited. This investigation has been completed and at this stage the report of the commissioner in charge of the investigation, former Appeal Judge Oscar Galgut, is awaited. If this report indicates that directors or officials of the aforementioned bank possibly committed offences, criminal proceedings against such persons will be instituted immediately. The liquidator of the aforementioned bank instituted civil proceedings against four former directors and chairmen of the bank on 8 February 1991. This matter is at present *sub judice*.

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Certain financial institution: number of investors

56. Mr D H M GIBSON asked the Minister of Finance: 58

(1) Whether he will disclose the (a) number of individual investors in a certain financial institution, the name of which has been furnished to the Minister's Department for the purpose of his reply, (b) types of investment made by them and (c) value of investments in each category; if not, why not; if so, (i) what is the name of this institution and (ii) what are the relevant details;

(2) whether any investigation has been instituted to establish whether (a) the Reserve Bank or (b) any other (i) Government or (ii) semi-Government authority was guilty of dereliction of duty or failed to exercise sufficient vigilance in supervising this financial institution; if not, why not; if so, with what results;

(3) whether financial institutions registered as deposit-taking institutions are (a) monitored by his Department from time to time to ensure that they are (i) solvent and (ii) engaged in financially viable undertakings and (b) properly regulated in terms of existing legislation; if not, why not; if so, what are the relevant details?

B143E

cont...

The MINISTER OF FINANCE:

(1) (a) ± 20 700 according to the report of the curators,

(b) and (c)

The investments were invested by Masterbond Participation Bond Trust Managers (Pty) Ltd which acted as agent in participation bonds, debentures, the money market and syndicated property projects (The company is not a registered financial institution.)

	Million
Participation bonds	R70,1
Short-term debentures	R400,5
Money market	R26,8
Property syndication	R96,9

(2) (a), (b)(i) and (ii)

No. In the report of 12 February 1992 submitted to the Cape Supreme Court the curators confirmed that a full accounting can be given of all funds which were received on an agency basis by the Masterbond Group from investors. Those investers whose funds have not yet been repaid by the curators and are currently at risk, are invested in high risk pleasure resort projects The development companies involved herewith are not financial institutions and no supervisory authority is responsible for supervising whether the projects are viable. Investors themselves are responsible for evaluating the risks of projects.

(3) (a) and (b)

Registered deposit-taking institutions (formerly referred to as banks and building societies) are statutorily in terms of the Deposit-taking Institutions Act, 1990, and Regulations made in terms thereof, compelled to submit the following statutory returns at the stipulated periods and in respect of the following matters and risks indicated in the table hereunder, to the Registrar of Deposit-taking Institutions:

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Return Form No.	*Name of Form*	*Intervals*
DI 099	Declaration in respect of statutory returns submitted	Monthly
DI 100	Balance sheet	Monthly
DI 110	Off-balance sheet activities	Monthly
DI 120	Asset-becked securitisation	Annually
DI 130	Return regarding investments and interests held	Annually
DI 140	Return of shareholders of DI or controlling company	Annually
DI 200	Income statement	Monthly
DI 210	Analysis of net non-trading income and reserves transfers	Biannually
DI 300	Liquidity risk—maturity ladder	Monthly
DI 310	Minimum reserve balance and liquid assets	Monthly
DI 400	Capital adequacy	Quarterly
DI 410	Interest rate risk	Monthly
DI 420	Price risk	Monthly
DI 430	Trading risk	Monthly
DI 500	Credit risk	Quarterly
DI 505	Reporting of large exposure	When necessary
DI 510	Large exposures	Quarterly
DI 520	Assets bought in	Annually
DI 600	Currency risk	Monthly
DI 700	Restriction on investments, loans and advances	Annually
DI 900	Institutional and maturity breakdown of liabilities and assets	Monthly
DI 910	Institutional breakdown of issuers of and transactions in selected assets	Monthly
DI 920	Analysis of instalment sale and leasing transactions	Quarterly
DI 930	Interest rates on deposits, loans and advances at month end	Monthly

The information provided to the Bank Supervision Department of the South African Reserve Bank in these returns conforms *inter alia* to the guidelines and standards of the Bank for International Settlements in Basel, Switzerland, which lays down international standards for supervision of banks and in certain cases the risk management orientation is more advanced than the rest of the world's bank supervision authorities.

Total expenditure on health

79. Mr M J ELLIS asked the Minister of National Health:

(1) What was the total expenditure on health by the State for the period 1 April 1990 to 31 March 1991;

(2) what is the estimated total expenditure for the period 1 April 1991 to 31 March 1992? B224E

The MINISTER OF NATIONAL HEALTH:

(1) R7 036 906 378

No particulars were received from the Lebowa Government;

(2) R7 997 164 990

No particulars were received from the Lebowa Government.

Own Affairs:

White schoolchildren: number enrolled at Government schools

22. Dr W J SNYMAN asked the Minister of Education and Culture:†

How many White schoolchildren were enrolled at Government schools for the White population group in each year from 1960 to 1992? B186E

The MINISTER OF EDUCATION AND CULTURE:

1985: 938 214
1986: 926 415
1987: 911 439
1987: 901 359
1988: 891 933
1990: 884 119
1991: 879 478

The figures are in respect of public ordinary schools. The pupil enrolment for 1991 is preliminary, while those for 1992 will only be available after 10 April 1992. The information is provided from the SANEP information system for education statistics which has been in operation since 1985. Prior to 1985, education statistics were collected by the Central Statistics Service and are not available in the required format.

Lecturer/student ratio

27. Mr R M BURROWS asked the Minister of Education and Culture:

(a) How many (i) students and (ii) lecturers are there at each of the colleges of education falling under his control and (b) what is the applicable lecturer/student ratio for each such college? B244E

The MINISTER OF EDUCATION AND CULTURE:

Residential Colleges	(a)(i)	(a)(ii)	(b)
Bolandse Onderwyskollege	417	51	1:8,2
Cape Town College of Education	372	43	1:8,7
Port Elizabeth College of Education#	140	26	1:5,4
Edgewood College of Education	628	76	1:8,3
Durban College of Education	206	53	1:3,9
Bloemfonteinse Onderwyskollege	294	41	1:7,2
Johannesburg College of Education	1 172	102	1:11,5
Pretoria College of Education*	150	19	1:7,9
Goudstadse Onderwyskollege*	227	36	1:6,3
Onderwyskollege Pretoria	1 380	114	1:12,1
Potchefstroomse Onderwyskollege	628	65	1:9,7

* Close at the end of 1992.
# Closes at the end of 1993.

Questions on Masterbond

B/Day 5/3/92 (58)

Political Staff

CAPE TOWN — No investigation had been instituted to establish whether the Reserve Bank, government or any other official authority was guilty of dereliction of duty in the Masterbond crash, Finance Minister Barend du Plessis said yesterday.

About 22 700 individuals had invested R594,3m in the company, he said in reply to a question tabled in Parliament by Douglas Gibson (DP Yeoville).

Information indicating that offences or contraventions were possibly committed by any person employed by, or associated with, Masterbond and Cape Investment Bank would be submitted without delay to the Cape Attorney-General.

Du Plessis stressed that Masterbond Participation Bond Trust Managers (Pty) Limited, which acted as an agent in participation bonds, debentures, the money market and syndicated property projects, was not a registered financial institution.

The curators had confirmed in a report submitted to the Cape Supreme Court on February 12 that a full accounting could be given of all funds which were received on an agency basis by the Masterbond Group for investors.

"Those investors whose funds have not yet been repaid by the curators and are currently at risk, are invested in high-risk pleasure resort projects. The development companies involved herewith are not financial institutions and no supervisory authority is responsible for supervising whether the projects are viable."

"Investors themselves are responsible for evaluating the risks of projects."

He said R70,1m was invested in participation bonds, R400,5m in short-term debentures, R26,8m in the money market and R96,9m in property syndication.

Registered deposit-taking institutions, formerly referred to as banks and building societies, were statutorily required to submit numerous reports of statutory returns at stipulated periods.

Du Plessis said an investigation in terms of sections 417 and 418 of the Companies Act on the insistence of the Registrar of Deposit-taking Institutions was requested by the Cape Investment Bank's liquidator.

Sun Life lends lustre to TransAtlantic outlook

(58)

Own Correspondent

LONDON — Blighted by depression in the property market, TransAtlantic Holdings, the UK insurance-property group controlled by Liberty Life, has cut its dividend for the first time after an 18% fall in pretax profits last year to £57,8m.

The dividend, which has grown by an annual compound rate of 25% since 1983, was reduced from 13,5p a share to 12p — the same level as 1989. And chairman Donald Gordon, whose Liberty Life group directly and indirectly owns about 55% of TransAtlantic, reports a fall in net assets for the second year running as the values of properties in Capital and Counties (80% owned) were revised downwards because of the UK slump.

BD 5/3/92.

Prospects

Total shareholders' funds dropped 8% to £904,6m. In 1990 they fell nearly 13% from £1,1bn to £984m.

But Gordon reports strong growth and exciting prospects at Sun Life, the insurance and financial services group which is jointly owned by TransAtlantic and Union des Assurances de Paris after a take-over bid in September.

Sun Life's net equity profits rose 32% to £43m. TransAtlantic's share increased 50% to £12,6m and will be higher this year following the take-over.

Insurance funds at Sun Life were £1,7bn up at £9bn. Sun Life had now displaced Capital and Counties as TransAtlantic's main asset, accounting for 52% of shareholders' funds.

Gordon said Sun Life would assume greater importance in TransAtlantic's business and development from now on.

He warned, however, that the collapse of the property market in the main economies following the 1980 boom in building will affect financial markets for a long time — hitting banks, insurers and property companies alike.

However, at Capital and Counties — where asset values were written down by 29% while net earnings almost halved to £16m — investments in large shopping centres will benefit quickly from an upturn in UK consumer spending.

Flexibility and liquidity had become "more important than overall return" and TransAtlantic had reduced its net debt from £362m to £315m, Gordon said. Cash and liquid resources were up £69m to £338m in spite of TransAtlantic's £250m investment in the Sun Life bid and Capital and Counties' £102m rights issue.

Meanwhile, TransAtlantic is still seeking a listing on the London stock market, having been turned down before because of its pyramid status. Gordon said while TransAtlantic may well have benefited from not having a high profile listing in London when the property sector was out of favour, the board continued to "pursue a dialogue with the London Stock Exchange".

STAR 6/3/92

'SA at crossroads'

First National Bank chairman Basil Hersov said on Wednesday he felt it was important to strengthen President de Klerk's hand at the negotiating table with a landslide "yes" vote. He said the referendum was a crucial national issue and South Africa was at the crossroads.

Commercial Union the leader

B/Day 6/3/92

SEAN VAN ZYL

COMMERCIAL Union's managed pension fund emerged as the top investment performer over a one-year period in a survey on monthly invested funds by financial services group Willis Faber Enthoven.

The survey ranked the investment performance of local pension fund managers over one- to 10-year periods. It showed, also, Sanlam's 200 Plus portfolio achieved the most consistent high returns in short- and long-term, ratings.

Board of Executors (BoE), UAL and Sage Life also ranked as leaders in most catagories.

However, AA Life, Stangen, Southern Life, Old Mutual, Momemtum Life and Fedlife performed relatively poorly in the rankings. AA Life notched the lowest return in all but one of the five catagories, barely reporting results above the average inflation rate for the different periods.

Willis Faber Enthoven spokesman Peter Dean said the results calculated in the survey had been verified by the participating fund managers.

He added the investment returns achieved by the different managers, over both the short and long term, were crucial for pension fund trustees to monitor.

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Long term

"It is the trustees' fiduciary responsibility to ensure that a retirement fund carries a positive rate of return on contributions and assets."

Dean said it was the duty of the trustee, also, to ensure that member's investment funds were not being overexposed to risk, while at the same time choosing the fund manager capable of achieving the highest return.

"Pension liabilities tend to be long-term, and the impact of the investment return is very significant, because of the compounding effect: an extra 1% per annum in the long term may reduce ongoing funding payments by the order of 15% to 20%."

While short-term performance ratings were necessary to determine different managerial expertise, Dean said trustees should look more to the long-term rankings.

Commercial Union's recommended mix portfolio achieved a 28,3% return over the one year rating, while Sanlam's 200 Plus took top ranking in the three-, five- and seven-year rankings by disclosing returns of 22,9%, 24,9% and 26,8%.

Allen Grey Investment Counsel achieved the highest return of 23,8% over 10-years, but lost its top position in the performance rankings over shorter periods.

AVERAGE ANNUAL RETURN OF MANAGED PENSION PORTFOLIOS BASED ON MONTHLY CONTRIBUTIONS

10	5	1	No OF YEARS TO 31.12.91
%	%	%	Portfolio
	12,0	18,7	AA LIFE (Managed)
23,8	20,3	17,2	ALLAN GREY INVESTMENT COUNSEL (Composite)
	21,2	27,7	BOARD OF EXECUTORS (Composite)
22,7	21,4	28,3	COMMERCIAL UNION (Recommended Mix)
19,5	18,3	23,9	FEDERATED (Fedlink)
20,9	21,7	23,4	LIBERTY LIFE (LEM- Ex-diversified)
20,4	18,5	21,5	MOMENTUM (Index plus composite)
18,8	17,4	19,5	NORWICH LIFE (Managed)
20,9	19,2	23,9	OLD MUTUAL (Managed)
	16,8	23,3	OLD MUTUAL (Omnifund)
23,3	22,2	23,6	SAGE LIFE (Managed)
21,6	20,5	23,3	SANLAM (100 Plus)
	24,9	27,1	SANLAM (200 Plus)
		26,8	SECURITIES PORTFOLIO MANAGERS
19,9	19,1	22,5	SOUTHERN (Managegrowth)
20,4	19,5	17,1	STANGEN (Spiral)
	22,8	25,1	UAL (Composite)
14,8	14,7	16,2	AVERAGE RATE OF INFLATION

Source. WILLIS FABER ENTHOVEN

AGENTS AND BANKS

Casting the first stone

FM 6/3/92 58

There is just a hint that the honeymoon is ending between banks and estate agents. It comes from Durban's Maxprop estate agency which has bought its way out of a three-year marriage with Boland Bank.

While the two have parted friends — Maxprop joint MD Eddie Peen stresses that the relationship with Boland has been excellent — Maxprop asserts that big changes are taking place in the property industry and wants its freedom to be in a stronger position to take advantage of opportunities.

Maxprop has bought back Boland's 23% stake in the company at a premium.

Maxprop, incidentally, claims to have been the first agency in SA to follow the British trend and tie the knot with an institution. It also appears to be the first to follow the subsequent trend.

The million-dollar question is whether other SA agencies will again follow Maxprop.

The issue of whether the mortgage lending institutions should acquire stakes in estate agencies is controversial. One argument suggests that agencies — which are supposed to be independent brokers — should not be institutionally owned, or linked, because this impairs impartiality in terms of financing property purchases. It is also argued that agents are by nature entrepreneurial and do not perform as well as corporate animals.

The advantages to the institutions are obvious. Organisations such as Absa have undoubtedly bought stakes in agencies to protect their bond market share in the wake of deregulation, which has intensified competition. They all deny restricting any agency's lending options.

But, as Peen says, the return to complete independence will give Maxprop greater flexibility in arranging innovative financial packages, especially for new projects and syndications.

Boland bought into Maxprop in October 1988. Peen recalls: "We were the first agency to forge such a link, but our lead was followed a year later by a flurry of financial institutions buying into estate agencies. With our buyout, we have become one of only two agencies in the country's top 10 which are independent of the institutions."

Maxprop has 20 residential franchises and is active in the commercial and industrial property sectors. It also boasts having launched property syndications worth R40m in the past year. ■

PENSIONS FM 6/3/92 (58)

Drilling a R400 000 hole

Pension savings of employees of liquidated Masterbore were used for working capital, instead of being paid over to the pension fund managers, confirms the ~~managers~~, AA Life. Employees of the defunct drilling equipment and contracting company are certain to lose out because they have no preferential status.

Though the amount involved is not large, about R400 000, the case gives impetus to the Financial Services Board's campaign to force companies to pay over pension money timeously. The Masterbore situation is thought to be one of many cases where the board has become aware that directors are effectively using the pension fund to carry them through the recession. As far as the *FM* can ascertain, Masterbore is the only offender so far to have gone into liquidation, leaving its pension scheme underfunded.

Also, though there has clearly been a breach of regulations, it may be difficult for the attorney-general to nail the offenders: the management changed between the period when the money was first diverted and the liquidation. The pension shortfall was reported to the board by AA Life several months before the liquidation.

The sensitivity attached to a situation where workers lose their savings came at about the time the board sent a tough circular to pension fund managers and principal officers, putting the onus on them to report late payers (*Economy & Finance* August 30). Breach of regulations carries a penalty of R200 — so, in the case of a fund for 500 members, R100 000 for every time the offence occurs.

The reporting requirements are supported in principle by the Institute of Retirement Funds and the Life Offices Association, but are thought to be so stringent that they are impractical. After the Masterbore case, it is unlikely there will be any relaxation. Together with circular PF74, that outlined the reporting requirements, the board also made it clear all infringements would be referred to the attorney-general's office.

AA Life's Joe Gates says he maintained close contact with the board during the Masterbore debacle. But Basilios Tsingos, ex-financial director of Masterbore, complains the fund had not been actuarially valued by AA Life so, after management at Masterbore changed during 1990, the extent of underfunding could not readily be established. But Gates calls that argument irrelevant, adding that the triennial valuation was not due. At all times, Gates says, AA Life was aware that members' contributions were not being received and was urging Masterbore to catch up.

In Masterbore's 1991 financial statements, the last issued before the company's suspension from the JSE, it is noted: "The group operates two pension schemes, which

continue →

are available to all employees of the group. . . . One of the funds was actuarially valued as at July 1 1988 and was found to be fully funded. The other fund was constituted on March 1 1988 and will be actuarially valued for the first time as at February 28 1991." Despite there being no valuation, Gates insists that, as fund managers, AA Life was keenly aware that the contributions had not been received — and these included employees' subscriptions.

Tsingos joined the board of the troubled company in September 1990. Wilf Davies had joined three months earlier as MD. The two are now partners in another venture. Tsingos says: "We inherited the situation at Masterbore and we ourselves reported to the board that there was a shortfall as of October of R400 000. We negotiated with them to pay R100 000 immediately and then further monthly contributions to cover the underfunding." He adds that from the middle of 1991, the company resumed paying over the employees' own contributions to a new fund, created at Liberty Life.

During talks between Tsingos and AA Life, it became apparent that Masterbore had hoped to be rescued by the large surplus in the pension fund of its recently acquired subsidiary, Cliff's Engineering. Cliff's was liquidated in January 1991, but attempts to reverse the fund into Masterbore's and so secure a contribution holiday were thwarted.

For the board, Andre Swanepoel confirms the case is with the attorney-general for a decision on whether to prosecute.

But who would be culpable? The company was previously chaired by Peter Rawson, whom Tsingos has described in a court application as a "fugitive from justice" (*Fox* February 14). Rawson has been associated with the Old Mutual insider trading scandal and a warrant for his arrest was issued at the same time as those for Old Mutual's Marco Celotti and David Schapiro. According to Davies, Rawson did not attend any board meetings last year except those held in London or Harare. Attempts by the *FM* to contact Rawson were unsuccessful.

Managerial regimes

But there was a definite overlap between the two managerial regimes. According to AA Life records, the contributions ceased on May 31 1990 and the shortfall then accumulated until July 31 1991. During that time, Gates says, the shortfall approached R500 000, comprising about R225 000 in employees' contributions deducted but not paid over, R225 000 unpaid employers' contributions and the balance in risk premiums and administration fees due to AA Life. Gates confirms the payment of R100 000 tendered in November 1991 but says four instalments promised to eliminate the arrears were not paid.

Non-payment of employers' contributions by a company weathering a financial storm is not abnormal and employers may negotiate a "holiday" if the pension scheme is already fully funded. But non-payment of employee contributions attracts criminal charges.

It may be impractical for the pension fund members to enforce their claims. To proceed, they would have to deplete the fund further. Gates has said he would like to see the attorney-general bring a precedent-setting trial, to deter others from abusing their funds.

Meanwhile, AA Life is sitting with insufficient funds that have to be allocated in some way. Gates says he is seeking advice from independent consulting actuaries, after which the board will be asked to approve an allocation method.

Possibly the most logical course would be to make the fund paid up as from May 31 1990, when contributions ceased to flow. Members in service at that time would then lose no benefits, except their contributions after that date. Employees who joined the scheme afterwards and who had their contributions misappropriated would have a claim on the liquidated estate. But the situation, all parties agree, is messy and without much in the way of precedent.

Bryan Deans

PENSIONS FM 6/3/92 (58)

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FM 6/3/92 (58)

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ECONOMY & FINANCE

FM 6/3/92 (58)

months to December.

Old Mutual's Rian le Roux says the uptick could be due to an inflow of capital from abroad, reflected in January's R1bn increase in official reserves of foreign exchange. "There are two possible reasons for this. Foreign firms may have reduced their credit to SA in December and increased it again in January; and foreign loans secured towards the end of 1991 may have been shown as inflows only in January."

Growth rates, over the 12 months to December, of the other monetary aggregates were:

- ☐ M1A 17,69% to R34,2bn;
- ☐ M1 14,82% to R60,9bn; and
- ☐ M2 16,05% to R155,4bn.

From November to December, M0 increased by 5% to R13,3bn.

Total domestic credit extended over the 12 months to December rose 12,7% to R196,3bn while credit to the private sector over the same period rose 14,5% to R192,7bn. Credit extended to the private sector rose 10,7% from February 1991 on a seasonally adjusted and annualised basis.■

FM 6/3/92 (58)

MUTUAL & FEDERAL/CUSAF

Rebounding

Shares in the short-term insurance industry have risen strongly over the past year and two leading insurers have released results this week to justify the better ratings.

Mutual & Federal's share price, at R30, is fast approaching its net worth of R31,41 as at December 31. Composite insurer Commercial Union (Cusaf)'s price, at R32, has also moved closer to the NAV of R36,78 as at the same date.

Investor confidence has steadily recovered after setbacks suffered in the short-term insurance sector a year or two ago and both groups' share prices have enjoyed a good run. Mutual and Federal's price rose 114% since February last year, while Cusaf's price has climbed about 52% over the same period.

Results reflect both rising profitability and a more confident mood in the industry. Mutual & Federal reported interim EPS up from 96c to 146c, and the dividend was lifted by a quarter from 20c to 25c. Cusaf's full-year EPS advanced from 291,4c to 488,4c and the dividend from 105c to 142c.

From the beginnning of the year Cusaf has separated its short and long-term business and future financial statements will reflect this. Latest results show Cusaf's composite net premium income up 18%, to R713m. The life business saw premium income grow 17%, to R350m.

On the short-term side, both groups showed good improvements in underwriting performance. Mutual & Federal's underwriting surplus jumped by nearly R22m to reach R25,4m; Cusaf's swung from last year's deficit of R18,8m to a surplus of R5,3m.

These recoveries are largely due to a relatively trouble-free claims year, with no major natural disasters and to a sharp rise in premiums. Both use coy euphemisms to describe premiums increases — Cusaf cites "remedial rating," while Mutual & Federal refers to "more realistic rating policies."

Cusaf's composite investment income has grown 21% to R253m, while Mutual & Federal's half-year increase is up 26% to R71m. Probably half the attraction in short-term insurance shares is in their investments.

But the present performance of the shares is probably based largely on the market's recognition that results on the short-term side have recovered. Provided there are no new setbacks, in particular natural disasters, the shares could rise further. *Shaun Harris*

FM 6/3/92 (58)

NEDBANK/TRIOMF FM 6/3/92

Echoes of the past (58)

An action brought against Nedbank in the Rand Supreme Court this week has revived painful memories of a stormy period in the bank's history. Standard Chartered (Stancha) Canada is suing Nedbank for US$2,3m plus interest.

The basis of the claim is a report on Triomf Fertilizer Richards Bay, at that time a subsidiary of Triomf Fertilizer. On the strength of this report, issued by Nedbank at the end of November 1985, Stancha Canada extended a line of credit. In January 1986, it discounted a bill, drawn on and accepted by Triomf Fertilizer Richards Bay, in payment of a cargo of sulphur — with recourse to seller Cansulex.

But when the bill fell due 180 days later, on July 8 1986, Triomf Fertilizer Richards Bay was unable to meet it. With an accumulated loss in that financial year of R117,5m and debts to Nedbank of over R200m, it was placed in provisional liquidation on July 14 1986.

By then, Stancha had released Cansulex from recourse.

Nedbank's long relationship with Triomf, owned by high-flying Louis Luyt, became a troubled one in the Eighties, when the drought reduced an already competitive fertiliser market, and Luyt battled market leaders AECI and Sasol, sacrificing margins for volumes. And, as the value of the rand tumbled over that period, operating losses were compounded by huge foreign exchange losses.

In November 1985, in a calendar year in which Triomf experienced a net loss of R75,8m, it reported uncovered off-shore liabilities of more than $69m. These were guaranteed by Nedbank, but then-MD Anton van der Merwe said no specific provision had been made for Triomf's debt. The following month, Nedbank converted R65m in loans to Triomf to preferred shares, reducing total debt to around R230m, the bulk of which was due to Nedbank. But no provision was made against a potential loss.

In the year to March 1986, no specific debt provision was made against this loss and the general debt provision amounted to only R259m. But following the provisional liquidation of Triomf Fertilizer Richards Bay, Nedbank made a specific provision — R248m — for its exposure to the parent company, Triomf, which by then had risen to R370m.

In August it took over Triomf. Share capital was trebled to R62m and 84,5m shares were issued to Nedbank at a nominal value of 50c each, giving Nedbank a 75,1% stake. With share capital increased to about R160m, Triomf wrote off its R81m investment in Richards Bay, cutting deeply into capital.

The situation steadily worsened as Triomf reported a R50,5m attributable loss for the six months to end-December, wiping out the R49,5m in ordinary shareholders' funds.

The following year Nedbank, under new CE Piet Liebenberg, finally disentangled itself, selling off the Triomf Potchefstroom plant for R69m. Together with the proceeds of the Richards Bay liquidation, this reduced the outstanding debt, which was eventually written off by Nedbank. ■

MONEY SUPPLY FM 6/3/92

Waiting for guidelines

New guidelines for growth in the broad monetary aggregate M3 will soon replace the range of 8%-12%. The new base will be the average level in the fourth quarter of 1991.

Thus, for the first time since massive reintermediation took place in February 1991, the Reserve Bank's published figures will be stripped of that effect. That month, changes in prudential requirements eliminated the benefits of transactions below the line. As a result, banks restored them to the balance sheet, bringing them within the definition of money supply. Since then M3 growth — measured over 12 months and from the mid-November base of 1990 — has consistently risen at a higher rate than the 8%-12% guideline range.

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In January it rose:

- Over 12 months, 14,73% (to R184,4bn) compared with 12,69% and 14,48% in December and November respectively; and
- Annualised from the fourth quarter of 1990, by 14,61% (to a seasonally adjusted R185,4bn), compared with 13,27% and 15,72%.

If M3 growth is measured over 11 months from February 1991, the preliminary growth rate was an annualised and seasonally adjusted 9,6%, compared with 7,4% over 10

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Official offers Model C insurance

W/Mail 6/3-12/3/92 (58)

By PORTIA MAURICE

A LEADING teaching official appears to have discovered a marketing opportunity in the looming prospect of privatisation in white schools.

Insurance broking firm South African Development Brokers last week sent to all principals an advertisement offering insurance cover for Model C schools. SADB's managing director is Professor Koos Steyn, who is also director of the Transvaalse Onderwysersvereniging (TO).

The advert, in the form of a letter to schools, was signed by Steyn on February 18, a day after Manpower and Education and Culture Minister Piet Marais made the Model C announcement. In it, Steyn offers schools "very favourable premium rates" and a "proportion of the commission earned from insurers".

Under the new management structure "it will be the responsibility of the management committee to arrange adequate insurance cover against loss or damage to property", Steyns' letter says. In the light of its "unique experience" in servicing more than 900 schools already, SADB seeks extra business.

A TO official said this week he "could not divulge" the amount of money they would return to schools.

SADB chairman HO Maree said the letter was directed "as a service to schools and communities and not as an opportunity to unethically expand business".

Bond refusals strangle inner city areas

w/mail 6/3-12/3/92

(58)

Financial institutions are reluctant to grant bonds in inner city areas — but they may be cutting their own throats, suggests a new report. By **REG RUMNEY**

A FINANCIAL garrotte threatens Johannesburg's inner city with slow strangulation.

The grey areas of Hillbrow, Joubert Park and the CBD suffer from both overcrowding and a reluctance by financial institutions such as banks and building societies (there is not much difference these days) to lend money to people to buy property there.

Evidence of "redlining" — effectively cutting off home loan finance to certain areas — is cited in a report commissioned by the Johannesburg City Council from the Human Sciences Research Council.

The report quotes two anonymous estate agents and an unnamed property owner operating in the area. Agent Jessie Kay at the end of last year approached the media to publicise the financial institutions' reluctance to grant bonds in the inner city.

The report states: "With regard to the financial institutions, the difference in their preparedness to lend in this area seems to depend on what kind of image they are trying to project. The 'man in the street's bank' is trying to preserve that image by finding innovative ways of dealing with the risks of assisting people with little or no financial backing. The bank that is 'staying in front so you aren't left behind' does not seem to care about these people at all."

Unfortunately, while alluding to Standard Bank's advertising slogan, the report does not name names.

The report also points to the far-reaching effects of the institutions' attitudes as well as paradoxical harm they may do to themselves.

"In this situation each institution is behaving in a way which protects its own short-term interests but collectively these actions result in circumstances becoming even worse for everybody.

"Thus the fact that an individual cannot raise a bond to buy living accommodation they (sic) can afford in the area of their choice not only affects that individual but the person trying to sell the property and all those who already own property in the red-lined area. This includes the financial institutions themselves whose existing bonds are placed at risk by the lowering of prices that the red-lining precipitates."

Financial institutions approached by *The Weekly Mail* confirmed a reluctance to lend in inner city areas, on the grounds of financial risk, overcrowding and lack of maintenance of buildings. Where sectional title units were for sale, a lack of knowledge of the workings of a body corporate was noted.

For instance, First National's home loans manager Andre Latre said: "We don't want to lend in those areas." He stressed that the bank had to take into account the interests of the bank and the buyer when advancing loans. He suggested that certain standards on, for example, overcrowding had to be maintained by the authorities before the bank would be happy about lending in those areas.

The report notes a suggestion by building society employees that the council should enforce health and other regulations. Other suggestions are that:

- The council or state should provide collateral to encourage lending.
- Banks and estate agents must take responsibility for educating buyers about the implications of home ownership.
- There should be an incentive scheme such as bonus reduction in repayments for people who service their bonds well.

The council report seems to pin its hopes for rejuvenation on individual home ownership, which relies on normal financing channels.

But an innovative co-operative housing venture scheme which guarantees security of tenure without individual ownership also holds some hope for the inner city.

The Seven Buildings Project aims to create a non-profit organisation to buy all seven buildings in Hillbrow from owner David Gorfill. Behind the project is Co-Operative Planning and Education (Cope) whose inner city project co-ordinator is Monty Narsoo.

Narsoo reckons the long-term finance for the project will have to come from those same financial institutions which have turned their back on the inner city residential areas. But the project differs from individual loans to home owners or developers in being a "total package" which includes guarantees and political support. His hope is that the financial institutions will be persuaded to the wisdom of keeping the inner city from decaying to ensure their other major investments, like Bank City, stay safe.

Many under-insured

STAR 7/3/92

Research conducted by a South African insurance company has revealed that policyholders who increase their cover in line with the official inflation rate will leave themselves severely under-protected.

Figures produced by Protea Assurance show that even the 18 percent minimum annual increase they recommended to counter the effects of inflation and acquisition of new possessions does not reflect the real rise in actual costs.

According to Protea group marketing manager Geoff London, those who have not seriously reviewed their cover within the past five years, could be under-insured by as much as 30 percent.

"This would be despite automatic inflation benefit having been applied by the insurance company. The cost of household goods, in particular, has outstripped the inflation rate. As a result, policyholders who rely on this figure as a guide to maintaining adequate protection would not receive adequate compensation.

"Insurance companies average the claim against the insured value of the goods. If the goods are under-insured by 25 percent of their real value, the insurer will only pay out 75 percent of the claim."

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MASTERBOND: *shocked investors quiz curators*

The five roads • to recovery

STAR 7/3/92 58

DEREK TOMMEY

A GROUP of investors in Masterbond and its associate companies were so shocked this week by disclosures about their money that they uttered an audible gasp of horror.

Their shock came at a statement by Ian Robinson that they could expect only between 5c and 10c in the rand if Marina Martinique were put into liquidation.

Mr Robinson's company, Robinson, Wheeler and Associates, is project manager of Marina Martinique.

He appealed to Masterbond investors not to rush into liquidation proceedings but to give some consideration to the curators' statement that creditors and investors would be best served by letting the curators manage the company's affairs. If more finance could be found for Marina Martinique, investors might get as much as 40c in the rand.

But Allan Levine, a Johannesburg attorney who chaired the Masterbond investors' meeting, said Mr Robinson might be seeing Masterbond's circumstances in a different light to that of investors, since continuation of work at Marina Martinique might enable his company to recover some of its losses.

Mr Levine appealed to the 250 investors present to give him and Don Mackenzie, chairman of the Masterbond Victims' Fund, an overwhelming mandate to put the Masterbond companies into provisional liquidation.

He said one reason why he opposed curatorship for the companies was that there was no machinery whatsoever for a formal investigation of what had actually happened.

The only way one could obtain a full and detailed investigation into Masterbond's affairs was through an inquiry, either in terms of the new Act, which provides for the investigation of serious economic offences, or in terms of the Companies Act.

This would result in a commissioner, usually a retired judge, being appointed who would hear evidence and frame a report.

"What we want to establish is where the blame lies," said Mr Levine.

He said there were five main avenues of inquiry and five main avenues of recovery.

The first would be to sell off and realise the assets of Masterbond.

"The curators have a different view. They say: don't sell it off, keep it. They want to negotiate. But we don't know with whom they are negotiating and we don't know the purpose of the negotiations.

"So the first avenue of recovery will be the sale of Masterbond's assets. We won't get 100c in the rand, but we will achieve certainty.

"We will know what we get, and in liquidation there will be an interim dividend."

• TO OPPOSITE PAGE

NAUGHT FOR THEIR COMFORT: Shocked Masterbond investors listen intently as they are told how little they can expect from a liquidation of the group's assets.
• Photograph: STEPHEN DAVIMES

P.T.O.

Masterbond losers explore recovery

(S8) STAR 7/3/92

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This would be "infinitely more" than investors would get if they agreed to the curatorship.

"The second avenue of recovery would be to investigate the personal estates of people responsible for the adminstration of the Masterbond group," said Mr Levine.

The Companies Act applied personal liability to people who carried on business in a reckless manner with intent to defraud, or which caused losses to investors and creditors.

Another avenue was open to those who had invested money with Masterbond through brokers and were never allocated secured debenture bonds. This could be the personal liability of directors of the companies concerned.

The third avenue of recovery to be investigated would be the financial brokers, said Mr Levine.

"I am sure most of you were advised by a financial broker to put your money into Masterbond because there was an extra percent of interest to be gained.

"What they did not tell you, I'm sure, was that Masterbond was offering commissions and kickbacks way beyond the norm in the industry at the time.

"If those brokers had done their work properly they would not have put you in Masterbond."

The fourth avenue of recovery was through the financial authorities. This included the Reserve Bank and others who had found irregularities in Masterbond's affairs as long ago as 1985. At the time, the attorney-general of the Cape declined to prosecute, but the financial authorities recognised that they had to safeguard investors' funds.

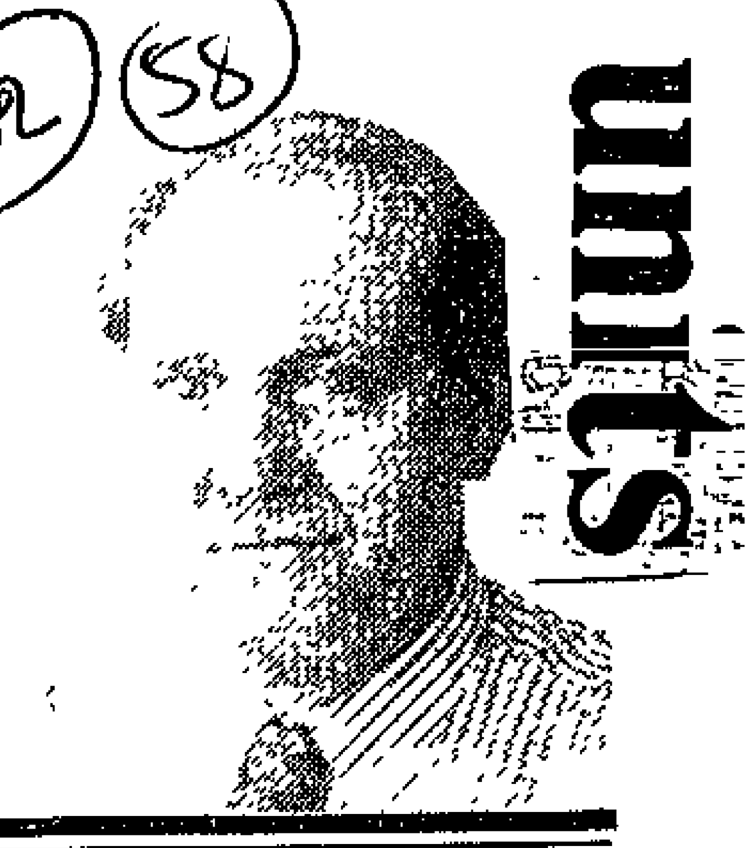
The fifth avenue of recovery was to determine whether the auditors had been remiss in their duties, said Mr Levine.

Place your trust in units

STAR 7/3/92 (S8)

MONEY MATTERS

MAGNUS *Heystek*



THE unit trust industry has just increased the basic management fee by 50 percent from 0,5 percent to 0,75 percent of the asset value.

Not everyone is happy with this sharp increase, which the Association of Unit Trusts says was necessary to keep pace with increased costs and inflation. It also says that compared to overseas costs, the fee of 0,75 percent is not very high.

Pressure

Now, I am led to believe, there is pressure to increase the commission paid to unit trust agents. Most of this pressure comes from the life assurance industry, which largely dominates unit trusts.

The commission paid to unit trust agents or brokers is substantially lower than that paid on endowment policies. But while the endowment business has been showing signs of tapering off in recent years, the unit trust industry continues to soar.

It is fast becoming the most popular investment for the average investor and the reasons are not hard to find.

They include inflation-beating investment returns over a long period, ease of entry and exit, and a great deal of liquidity and flexibility. In short: the ideal stock market investment for the average investor who does not have the time or the knowledge to follow the upward and downward moves of the Johannesburg Stock Exchange on a daily basis.

At the end of 1991, the number of unit trust accounts was rapidly approaching 900 000 with the number of individual unit trust holders approaching 500 000.

However, it needs to be pointed out that it took the unit trust industry more than 26 years to achieve this total. In contrast, it took M-Net barely five years to sell more than half-a-million decoders... Makes one think, doesn't it?

Unit trusts have always suffered from a rather lacklustre marketing effort. This is likely to change after the increase in the service fee by 50 percent earlier this year. Now it becomes more profitable to market unit trusts as opposed to alternative equity-linked investments such as endowment policies and retirement annuities.

Broadly speaking there are three types of unit trusts: general equity funds, specialist equity funds and the income funds.

As the name implies, the general equity funds are investments in virtually all the sectors on the JSE.

By spreading the investments across the whole of the JSE, the risk is reduced considerably.

The average investor simply does not have the time and the knowledge to pick the winners and discard the losers. This is done for him or her by the professional unit trust fund-managers who are trained to do this job for eight hours a day, every day.

Over time, the general equity funds have consistently beaten the inflation rate. Over the past 10 years, the average compound return (capital appreciation plus income distribution) has been more than 25 percent, compared with an average inflation rate of 15 percent.

Another factor which works to the advantage of the smaller investor is that regular and small investments can be made into unit trusts. It is not possible for the average investor to invest amounts as small as R50 a month on the JSE.

So why should the smaller investor lose out on the inflation-beating returns produced by the stock market year after year? Unit trusts are the way to get round this obstacle.

Specialist unit trusts, as the name implies, are investments in certain specialised sectors of the JSE. Some will invest solely in gold and gold-related shares while others will invest only in industrial companies.

Over the long term the general, broad-based, funds have shown the most consistent growth.

Volatile

Income funds, while being unit trusts, are not equity-based at all. Here the investments are made in high-income-producing fixed investments, like Government stocks and bonds.

Many investors use income funds to "park" their capital during volatile times on the Johannesburg Stock Exchange.

A great advantage of unit trusts (sometimes also a disadvantage) is the ease of entry and exit. Should the investor decide to cash in on his investment, it can be done very easily without any penalties.

In terms of the Unit Trust Control Act, the unit trust company is obliged to buy back any units from an investor. For this reason it always needs a certain amount of cash in the bank (currently 5 percent of the total assets).

The disadvantage of this, of course, is that investors use their unit trusts as a savings account. This is not

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advisable at all and can seriously undermine a long-term investment or savings plan.

It sometimes requires a great deal of discipline not to "dip" into those unit trusts, especially after the market has risen strongly.

But is it a good time to invest in unit trusts now?

The answer is not a simple "yes" or "no". It depends on the time-span of the investment.

The longer the investment period, the less risk.

For the smaller investor with a limited amount of knowledge and money, there is no better investment than unit trusts.

ANDREW LUKHELE . . . thrives on challenges.

From stokvel organiser to top bank post

By ZB MOLEFE 58

C | Pren 8/3/92

IT'S been quite a leap from the world of stokvels to the world of high finance for Andrew Lukhele.

But the National Stokvels Association of South Africa president takes his recent appointment to the the board of Future Bank in his stride.

To him the the language of money is familiar. It saw him organise the township stokvel movement into a respected form of generating wealth.

What does it mean to be on the board of Future Bank? And, perhaps, more crucial, making this leap at a time of a declining South African economy? Added to this the bleak economic picture marked by the number of failed black economic efforts.

"It's true that there has been unfortunate (black) business failures. But that does not mean blacks are incapable. There are quite a number of impressive (economic) initiatives coming from the townships at the moment," he retorts.

"The lack of a well-rounded business education for blacks is an obvious handicap. That is why the fledgling black business is faced with a legion of problems which seem insurmountable."

But Lukhele believes all that is changing. A number of black economic efforts have at last realised that expansion and increased business knowledge is the name of the game.

He should know. He cut his teeth in the tough financial school of the informal sector as organiser of stokvels. It was this education that saw him voted into the boards of the Urban Foundation's Group Credit Company and the Foundation for Entrepreneurship Development.

He is also founder and executive member of the Foundation for African Businesses and Consumer Services.

This, more than anything, explains why he leapt at the chance of serving on the Future Bank board.

"Anything carrying the label 'informal' has a stigma," says Lukhele.

Lukhele reasons that the informal business sector is essentially a survival activity for the majority of blacks. A changing South Africa is presenting blacks with opportunities. It is a South Africa without all those laws which stifled and controlled meaningful black economic activity.

"That is why we need to venture into the country's mainstream economy. The Future Bank is one example of this. It's a big challenge.

"We have to prove to the man-in-the-street that we have what it takes," Lukhele says.

But he adds a note of caution. Because blacks have been denied skills which have led to business failures in the past, they must guard against history repeating itself.

"We must be careful not to buy skills that will encourage our dependence on others," he said.

Insurance warning for firms trading in Africa

S Times (CM) 58

WITH the general relaxation of sanctions, South African companies trading in neighbouring countries should check their insurance arrangements relating to assets in those countries — or they may find themselves without cover, warns a leading insurance broker.

"During sanctions, businesses operating in those countries were, for security reasons, reluctant to disclose offshore assets, and undisclosed assets can create difficulties in a claim situation," says Rodney Maitland, a director of PFV Insurance Brokers.

"Some companies with wide geographical limits have claimed for damage to property located in African countries.

"In certain instances, these assets were not specifically declared and difficulties were encountered."

He points out that now sanctions are fast disappearing, it will pay South African companies to ensure that foreign property and assets requiring insurance have been fully declared.

Fedsure on prosperous new track

S ITimes (BUSS) 8/3/92

(58)

IT takes a special kind of company to form associations with groups as diverse in culture as Saambou and Investec.

That was the achievement of Arnold Basserabie, chief executive of Fedsure, in its latest financial year.

Until 1991, Fedsure was a life-assurance, pensions and employee benefits group with a small short-term arm.

Last year it formed strategic alliances with conservative Pretoria-based building society Saambou and with yuppie-bound high-flier Investec, as well as buying 30% of highly regarded Cape bank Fidelity.

Saambou took a knock last year. It had big write-offs from home-loan defaults and from misreading the capital market.

Fedsure took 34% in a deal last year. Mr Basserabie is happy with Saambou's focus and direction.

"The management is dedicated to improvement," he says.

Investec has been the fastest-growing bank in SA for the past few years and its share price has risen rapidly.

Fedsure's has not lagged behind either, having nearly doubled to 780c in a year.

Mr Basserabie believes the rerating has come on the back of the group's decision to enlarge its financial services activities.

The ties with Saambou and Investec are two examples. Others are Fedgro unit trust, now worth R27-million, Fedbond participation mortgage bonds and Fedlife Capital fund.

The capital fund is almost an investment banking exercise. It is a vehicle for investing in listed or unlisted but established businesses which have not reached blue-chip status and perhaps need capital to reach the next stage of growth.

Independent Templeton Finance will investigate investment opportunities for proposal to the fund's Fedlife trustees. Templeton is also required to invest in the recommended opportunities and watch the business. Higher risk should be compensated by higher reward.

Fedlink, the managed pensions portfolio, showed up better in recent surveys after a few years in the doldrums.

Fedsure's earnings, out tomorrow, will show a 22% rise the compound rate over the past eight years. The figures are arrived at mathematically, and hold no surprises.

Taxed income reached R28,8-million, earnings a share 42,8c and the dividend 30,5c.

Assets grew by a quarter to R5-billion. Gross premium income was up 30% to R891-million, of which recurring premiums made up R638-million and single premiums the balance. Single premiums jumped by 63%. The lapse rate on new recurring policies is a low 10%.

Investment income was 22% higher at R452-million.

Fedsure introduced a 60-strong agency team to complement its broker referrals.

All life offices need to increase their capital bases to allow them to grow. The share swop with Investec coupled with the R80-million to be raised through the issue of 13,5% convertible preference shares will boost the capital base by R220-million. The prefs are convertible when the ordinary dividend matches the coupon — in about eight years.

Mr Basserabie says. "The Investec deal allowed us to raise our capital base and at the same time the voting pool's control was enhanced."

It also allowed Investec to form a union with a previously unmarried insurer.

Every player can now offer customers a broader range of financial services.

Clouds over Osprey

SITimes (BUSS) 8/3/92

MUCH-WARNED members of Osprey have another six weeks to wait before an announcement about the ailing Gazankulu gold mine's future is made.

Manny Agrella, a director who represents foreign shareholders in Osprey, says control of the mine has changed. Shareholders were told in September and October last year that negotiations were under way.

The mine has not been worked since December and word is that staff have not been paid.

Mr Agrella says the mine is in a bad state, but it was reopened last Thursday. He confirms there have been staff disputes.

The mine was sold with book debts of under R500 000, but the actual figure is believed to be about three times that. The amount needed to keep the mine going was also underestimated.

Mr Agrella is reluctant to disclose details. He represents investors who have put R4,4-million into Osprey shares.

The major shareholder was Golden Osprey, owned by Swiss company Evergreen. A loan to Golden Osprey was serviced out of pre-tax earnings of the Osprey mine in commercial rands.

Control of Osprey passed to Isle of Man company Financial, which ceded it to Garditex.

Osprey was the object of a Reserve Bank investigation last year. The company itself was cleared, but Garditex remains under scrutiny.

Garditex also bought control of Manserv and the minority had to wait two years before being paid after Garditex transferred funds through the financial rand to settle them. The validity of that transaction was in dispute. Manserv was to buy 20% of Osprey among other investments.

A rights issue in Osprey looks inevitable, and there is talk of an acquisition. Whatever happens, it will take a miracle for Osprey shareholders to recover their losses.

Neighbouring mine Gazgold recently held a rights issue after securing government assistance. But other greenstone mines, such as Eersteling, Cengold and Barbrook, have withered.

Osprey is 15c, off the 8c low of September — but a far cry from the 400c of 1987. Selling at any price looks like a good move.

Alliances boost Fedsure results

STAR 9/3/92

Finance Staff (58)

The strategic alliances forged with Saambou and Investec are beginning to pay dividends for Fedsure Holdings.

The group, which derives the bulk of its earnings from Fedlife, reports profit growth of 22 percent to R28,8 million (R23,6 million) in financial 1991.

This is equivalent to a rise in earnings per share to 35,1c from 25c. A total dividend of 30,5c (25c) has been declared.

Fedlife's gross premium income jumped 30 percent to R891 million and recurring premiums increased by 21 percent to R638 million.

Fedsure CE Arnold Basserabie says the deals with both building society Saambou and Investec Bank were already producing positive results in new business benefits and enhanced prospects.

MONEY MARKETS by Sheridan Connolly

Shortage kept at preferred level

(58)

B/Day 9/3/92

THE Reserve Bank continued its mopping up operations last week, keeping the market shortage reasonably stable at around the R1,5bn level which it is said to prefer.

To drain liquidity from the system, the Bank issued a special seven-day Treasury bill tender worth R1,2bn as part of a rollover of two maturing issues worth R1,3bn. The Bank's R1,2bn special tender was well subscribed with application amounting to R2,1bn at an average rate of 16,34%.

The three-month Treasury bill rate dropped further last week slipping to 15,63% from the previous week's 15,69%. The Bank received R676m for its R200m worth of bills on offer in the weekly tender at the end of last week.

This week should see the build up to mid-month liquidity inflows getting under way which will, no doubt, be quickly mopped up by the Reserve Bank through further special Treasury bill tenders.

Money market rates moved sideways throughout the week with the 90-day liquid BA rate steady at 15,90% — although the actual trading rate on the BA was said to be as low as 16,80%. Trade on NCDs was fairly quiet. FNB quoted six- and nine-month NCD's at 16,25-15% and one year rates at 16,30-20%.

Market factors seem to be comfortable with rates at current levels and there does not seem to be much downside potential, at least until the result of the referendum gives the market definite direction. Overseas interest, particularly in the capital and the forex markets has dwindled and potential investors are waiting to see which way the market will go.

Meanwhile, expectations of a cut in official rates are still running high but most analysts are confident Reserve Bank Governor Chris Stals will wait for February's consumer inflation data, due to be published a few days after the the referendum result.

Dealers seem reluctant to get their hopes up for lower rates in the short term as the market has been ready and waiting for a cut for the past year or so, but the Bank has not succumbed to market pressure.

Sentiment in the capital market was more bullish last week with local players confident that the outcome of the referendum would be a majority "yes" vote. This would see the return of foreign investors who have pulled out of the market to wait for the outcome of the white vote. Trade in the options market has been busy as investors see this as a safer bet in the meantime.

Towards the end of last week, the benchmark Eskom 168 was trading at 16,29% and the government RSA 150 was marginally higher at 16,60% from 16,58%.

US retail sales hike sparks cautious optimism

BUSINESS

Fedlife growth boosts Fedsure

B/Day 9/3/92 (58)

SEAN VAN ZYL

FINANCIAL services group Fedsure has reported a 22% rise in attributable earnings to R28,8m for the year ended December, largely achieved by strong growth in business written by its flagship assurance subsidiary Fedlife.

Earnings amounted to 42,8c (1990: 35,1c) a share of which a total dividend of 30,5c (25c) a share has been posted. The group has declared a final dividend of 18c (15c) a share, keeping the cover at 1,4 times.

Following the rapid advancements achieved last year, which resulted in Fedsure and Investec trading an associate cross holding in the other, Fedsure has grown into a diversified financial services group with interests in banking, building societies, life assurance and unit trusts.

CE Arnold Basserabie said the "string of strategic alliances and investments" gained during the year had placed Fedsure in a prime position in the SA financial services sector.

Commenting on the group's core life assurance business under Fedlife, Basserabie said new business premiums grew by 23%, boosting gross premium income by 30% to R891m. Benefits paid to policyholders amounted to R482m while total assets broke through R5bn.

Recurring premiums climbed by 21% to R638m while single premium business rose by 63% to R253m. The group's investment income, excluding capital appreciation, increased by 22% to R452m. The market value of investments climbed by 26% to R4,7bn.

Two banks to spurn ratings

(58)

SHARON WOOD

STANDARD BANK and Nedbank do not feel the need to go for a local credit rating at present and may look towards an international rating in the future. B Day 9/3/92

These two major commercial banks are the only banks that have not applied for a voluntary rating by local agency Republic Ratings. The ratings are voluntary because only then is Republic Ratings able to gain the required confidential information needed for an informed rating.

A banking spokesman felt an international rating would be of more benefit to SA banks competing in international financial markets.

But the timing of applying for an international rating was dependent on the political and economic climate and SA banks becoming involved with international markets.

Nedcor CEO Chris Liebenberg said there was no great urgency to apply for a rating. Long-term credit ratings were the most influential on international markets and, as yet, SA banks did not issue long-term paper.

"There is not really a need for ratings, but when the need arises Nedcor will certainly go for one. Nedcor also wants to make sure that local ratings are credible and absolutely right."

Asked whether Nedcor would go for an international or local rating, he said the group would probably apply for both.

Standard Bank spokesman Graeme Bell said the bank had decided not to apply for a local rating yet.

"A rating is only meaningful and reliable if the banking industry is large and diversified, such as overseas, and the SA banking industry is neither."

Short-term insurers next in line for rating

STAR 10/3/92 (58)

Finance Staff

After 12 months of studying and reporting on the banking sector and its participants, Republic Ratings' analysts are ready to scrutinise the short term insurance industry and its players.

The independent corporate rating agency has already proved its worth in the local capital and money markets.

In addition to its assessment of the banking sector, it has also rated all the major capital market players.

Company rating is fairly new in South Africa but is rapidly gaining acceptance and will become more entrenched as South Africa rejoins the international financial markets.

Director Dave King says that ratings are indispensable in First World economies. "Investors will usually not even consider investing in non-rated paper.

"Further, major corporations will generally think twice before entertaining counterparty credit exposures with poorly rated (or non-rated) companies," he added.

In the insurance sector the ratings, which are expressed as a symbol, refer to an insurer's ability to timeously pay policyholder claims over the medium to long-term.

Teachers: Cape pupils fare best

WHITE government schools in the Cape have the best teacher-pupil ratio in the country at both primary and secondary levels. CT 10/3/92

The Minister of Education and Culture, Mr Piet Marais, said yesterday that in March last year the average teacher-pupil ratio was 1:19 for white primary schools in the Cape, and 1:14,8 for high schools. (56)

Significant turnaround at Guardian National

STAR 11/3/92 58

By Sven Lünsche

Liberty Life's short-term insurance arm Guardian National achieved a significant turnaround in its underwriting balance during financial 1991 on the back of a substantial rise in premium rates.

After an underwriting loss of R14 million in 1990 Guardian yesterday reported a surplus of R1,6 million for 1991. The directors say that the surplus would have been greater had it not been for a large number of fire losses.

Gross premium income was lifted by R100 million to R600,5 million on the back of a 9,8 percent rise in investment income.

As a result attributable earnings were up from R17,6 million to R29,5 million, equivalent to earnings per share of 395,2c (266,4c). The total dividend was raised from 130c to 155c.

Net asset value over the year improved 35,3 percent while a satisfactory solvency margin of 73,6 prcent was achieved.

Protea Assurance on mend

Finance Staff

S Tyn 11/3/92

While Protea Assurance (Prosure) reported an attributable loss of R8,7 million in financial 1991 (loss of R14,6 million in 1990), it says the underwriting account showed a marked improvement towards year-end. (58)

The directors say underwriting losses in the second half were half their level in the comparative period of 1990.

Their confidence in a continuation of the improving trend is reflected in an unchanged total dividend of 53c a share.

Protea's net written premiums rose by 44 percent in 1991, contributing to a rise in net asset value a share from R24,92 to R32,99.

The life insurance division boosted its contribution to the bottom line by 23,5 percent.

Analysts expect Stals to maintain tight rein

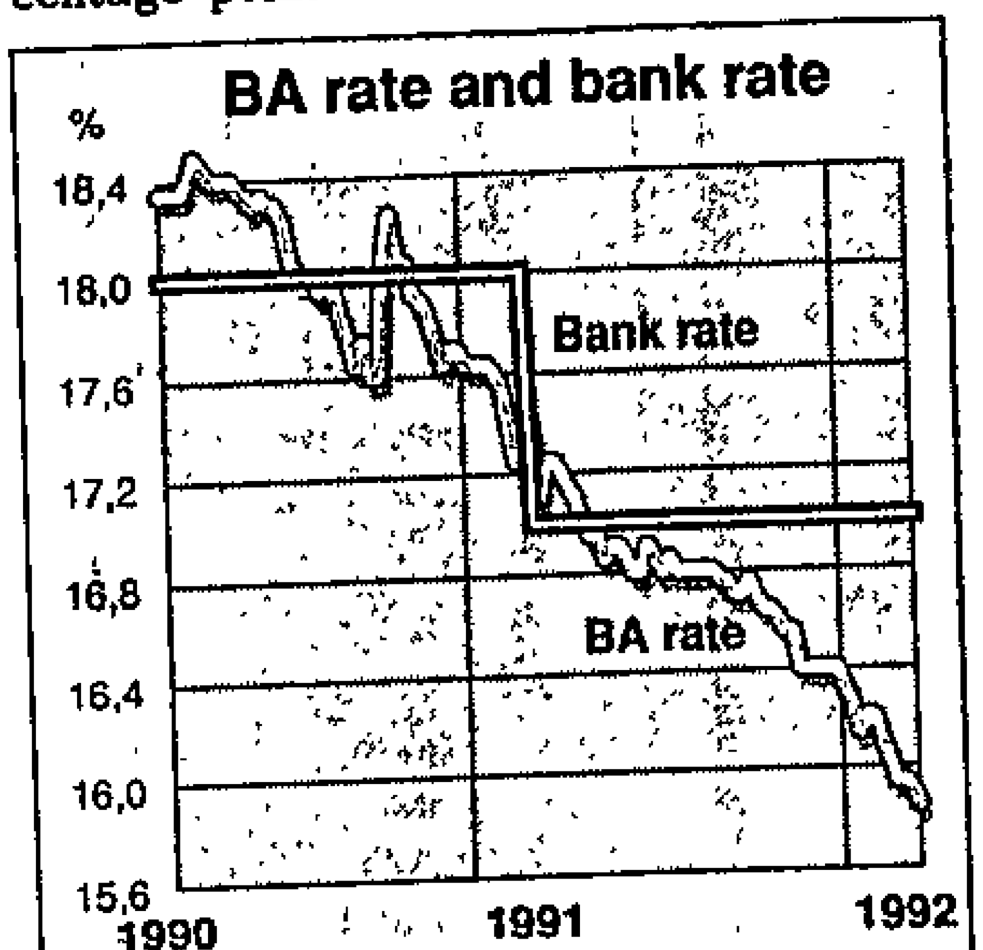
BDay 11/3/92. (58)

SHERIDAN CONNOLLY

DESPITE continued downward pressure forcing the 90-day liquid BA rate to its lowest level in three years, most market analysts do not expect Reserve Bank Governor Chris Stals to relax his tight monetary stance before the Budget.

Analysts said yesterday they expected the Reserve Bank to continue to exercise monetary discipline until there were visible signs the Bank was winning its battle against the obstinate rate of inflation.

They said the disappointing and persistently high rate of consumer inflation was the only factor standing in the way of lower interest rates. The market had been expecting a rate cut for more than a year, and had already discounted for a one percentage point cut in the Bank rate. The Reserve Bank, however, had thus far refused to bow to market pressure.



Graphic: FIONA KRISCH Sources: I-NET & SA RESERVE BANK

Recently, the one percentage point reduction in mortgage bond rates by all leading banking institutions sparked off speculation that history would repeat itself and see the Reserve Bank drop the key Bank rate one week prior to the Budget speech. A rate cut, however, failed to materialise.

Early in March last year, the Bank sliced Bank rate by a single percentage point to 17% in response to a one percentage point drop in mortgage bond rates initiated by First National Bank.

The liquid BA rate has maintained a sharp downward trend over the past few years and at the beginning of this week dipped to a new three-year low of 15,85% — its lowest level since February 1989.

Dealers said yesterday although there was still room for further easing in the BA rate, a rate lower than 15,75% could not be sustained in the short-term.

Rand Merchant Bank economist Rudolf Gouws said he would be most surprised if Stals cut rates before the Budget speech and the next set of inflation figures due next week. Although a drop in interest rates would not have much of an economic effect, lower interest rates were part of an overall process of getting the economy into a recovery phase.

The three-month Treasury bill rate slipped to 15,63% last week compared with the static Bank rate of 17%.

Low cost housing 'key to growth'

58

B/Day 11/3/92.

Reports by
PETER GALLI

ALL professional and allied building industry bodies should get together and approach the financial institutions as a unified group about solving the "affordable housing" problem, and helping to kickstart the economy, says Claybrick Association executive director Leon de Bruyn.

"The industry was hoping that the findings of the De Loor Commission into low cost housing would have been released by now but as this has not happened, we have to take the initiative," he says.

More and more contractors, manufacturers and suppliers were struggling to stay in business, and were finding that their forward order book was non-existent.

The various associations were anxious to stimulate the market, but could not do so without the help of the institutions.

Constructive

"All the allied industries are keen to join together and work as a team. The suppliers are also ready, as most have stockpiles building up. Something has to be done before this situation gets out of hand," De Bruyn says.

The mechanisms are all in place for the players to get together: Bifsa is involved with training and the National Association of Home Builders and the African Builders' Association are positioned to assist in formulating a strategy, he adds.

"We are asking the public sector to take the initiative. The Claybrick Association is prepared to provide the infrastructure to co-ordinate and facilitate this, but something constructive has to be done soon."

The association had approached all the institutions and made presentations to them, as well as to the Association of Mortgage Lenders' technical committee.

Criticisms by the institutions, and matters of concern, had been examined and addressed. One concern was the water resistance of homes with walls of single-brick thickness. "Tests were carried out in the short term, and the structure was found to be water resistant."

De Bruyn says his association registers and appoints contractors, and helps ensure that homes are properly constructed by sharing the building inspectors' function with the institutions concerned.

Despite this, institutions were holding back and were involved only in a small number of developments with a negligible amount of units.

The brick stockpile was still growing, and now stood at 442-million bricks, but this is only seven weeks' production.

This would soon be used up if affordable homes were built on a large scale.

The brick market has been saved by continued activity in the non-residential market, says De Bruyn, but growth will ultimately come from the low cost market.

The association believes a fundamental change in approach to low cost housing is essential.

"Products are expected to conform to First World standards but are directed at a Third World market, and our approach needs to take this into consideration," he says.

Unit trusts advised on savings role

B/Day 11/3/92 (58)

Business Day Reporter

THE unit trust industry's role in the mobilisation of savings must increase, Association of Unit Trusts chairman Clive Turner said in the association's 1992 yearbook.

"The unit trust industry will undoubtedly have a growing role to play in the future development of the financial services sector."

The strong rise in equity prices during the year led to another excellent year for unit trusts, he said.

Total unit trust assets reached R10bn for the first time during the September quarter. Assets ended the year at R11,4bn, up R3,9bn from December 1990's R7,5bn.

Total unit trust sales reached a record R2,9bn for the year and after repurchases of R1,5bn, the total net inflow topped R1,4bn.

Both sales and repurchases were at record levels following a 1,5% marginal decline in the unit trust capital index in 1990 and in 1991 when the capital index again showed a meaningful gain of 27,4%.

The continually growing level of sales through a somewhat volatile stock market environment reflected higher contractual sales through systematic savings schemes, automatic reinvestment of income distributions and a propensity by new investors to take the longer view.

Turner said the higher level of repurchases, while likely to be mirroring unit holders' concern at the vulnerability of the current level of prices to a correction, was also a factor of the expanding size of the industry, which would always be subject to a certain level of repurchases.

Three particular issues handled by the Unit Trusts Advisory Committee were worthy of note, Turner said.

The committee agreed to amend legislation to allow trusts to invest up to 10% of their total assets in any company with a market capitalisation exceeding R2bn.

The existing limit of 5% continued to apply to companies with a lower market capitalisation.

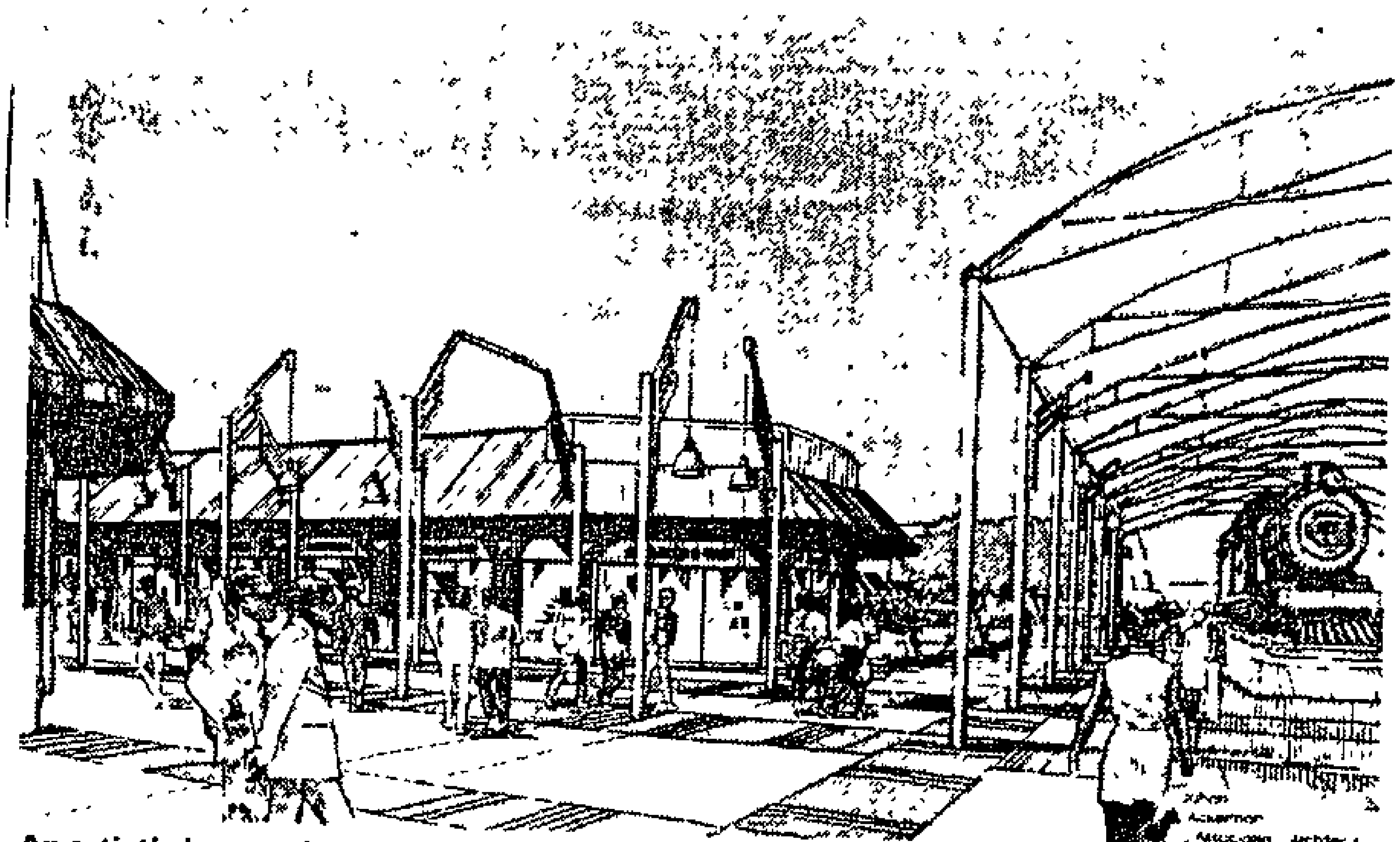
It also agreed trusts could invest in up to 10% of issued share capital of companies with a market capitalisation higher than R2bn, again with the previous 5% restriction applying to companies under this level.

The committee also supported the proposed 1% annual service charge, compared with the previous 0,5% a year, fixed 26 years ago...

The Financial Services Board reviewed the decision and set the level at 0,75% a year.

Amending legislation effectively allowed the use of derivatives, but only after strict parameters had been drawn up and approved.

Turner said a sub-committee had been appointed to examine the implications of the use of derivatives.



An artist's impression of the R15m Kempstar shopping centre being developed next to the Kempton Park station. Construction of the project has begun and is scheduled to be completed by December 1.

Concor builds R15m retail centre

CONCOR Property Developments has embarked on a R15m retail project next to the Kempton Park station. It will be known as Kempstar, says MD Ian Clark.

The centre will offer 5 200m² of lettable space and is situated on a 12 586m² site.

Concor has been awarded a lease by the SA Rail Commuter Corporation on the property for 45 years with an option to renew for a further 40 years.

"As Concor Property Developments tends to be a short-term investor, we would like to sell the development on. We are talking to a number of institutions at yields varying from nine to 11%, depending on certain operating conditions and guarantees," he says.

Concor had decided that the future of retailing lay with black consumers and had identified this development as offering a good location.

Between 50 000 and 100 000 commuters pass directly through the station daily.

In addition, there is a taxi rank on one side of the development and an open municipal parking area for about 200 vehicles on the other.

"The centre is aimed exclusively at the commuter, both black and white. About 10 to 15% of the present commuters are white, and we are positive they will use the centre," Clark says.

The project is expected to be complete by December 1, but the first block accommodating the South Afican Transport Services should be ready for shopfitting by September.

The SA Police has also taken space in the centre, and will be "on hand if necessary", he says.

About 50% of the space has already been let. Leases are committed for another 40%, and negotiations are under way for the remaining 10%. Tenants include Diskom, Standard Bank and Captain Dorego.

Rentals levels for smaller tenants are above R30/m², with some space allocated for the informal sector. B/Day 6/3/92

Extensive

"We are looking for a tenant to take this space and then sublet it. We have held extensive discussions with the local community, through the civic association, on the development," Clark says.

The development is in line with the Concor group policy of moving away from its reliance on construction and into property development, where a package is sold on to financial institutions.

Concor is considering other similar schemes.

Western Cape development

B/Day 11/3/92

THE AECI Pension Fund and RMS Syfrets believe the development of a R150m shopping centre at the intersection of the N2 and the main road linking The Strand, Somerset West and Stellenbosch will be successful.

However, property industry spokesmen have expressed concern at the large number of retail developments coming on line, though they acknowledge the opportunities in niche markets.

The pension fund announced recently it would develop the centre. RMS Syfrets will act as development managers and leasing co-ordinators for the first phase of 36 000m² lettable space.

The centre will be anchored by a major food chain and two fashion stores, and will offer a 1 000-seat cinema complex and 90 shops, with trading expected to begin in September 1993.

AECI Pension Fund recently bought the site from AECI in a deal that includes an option to buy more land for expansion. Development rights were approved by the Western Cape Regional Services Council in December.

"The centre will be successful as it will be designed with the tenants' needs in mind, and the catchment area includes The Strand, Somerset West, Stellenbosch, Gordon's Bay and the coastal region as far as Hermanus," said RMS Syfrets MD Patrick Flanagan.

Environmental impact studies had been undertaken by Parker and Associates.

Protea's R9,6m loss 'better than expected'

B/Day 11/3/92 (58)

SEAN VAN ZYL

COMPOSITE insurer Protea Assurance has disclosed a R9,6m loss for the year to end-December, which the directors described as a turnaround compared with the previous year's loss of R14,5m.

The loss for the year amounted to 122c (1990: 184c) a share from which a dividend of 53c (53c) a share has been declared. The company did not post an interim dividend.

The directors of Protea, which underwrites life and short-term business, said the group's solvency margin of 90% was well above statutory requirements and that the loss posted for 1991 "is below what had realistically been expected".

Nonetheless, Protea is the only insurer which has so far posted a loss for the trading year to December.

Furthermore, its solvency margin has declined to 90% from the previous year's 98,5%.

Investment income of the life business grew by 26,3% to R13,9m (R11m) while the market value of investments increased to R393,9m (R318,4m). The life fund rose to R264,3m (R192,5m) while life premium income climbed 33,8% to R41,9m (R31,3m).

Although Protea's net premium income on the short-term side grew by 44% to R287,1m (R198,9m), which the directors said implied growth in market share, the underwriting account showed a loss of R31,1m (R39,5m loss) which suggested the business underwritten was not entirely prudent.

In comparison, the majority of insurance companies said they expected to disclose a profit on their underwriting accounts for 1991 due to corrections in rates following the fierce rate war over the past five years.

Protea said its increase in market share placed it in a prime position to benefit from the present hardening of rates in the industry.

Furthermore, the directors said the company's declaration of a 53c dividend for 1991 — the same as the previous year — reflected their confidence in the company's healthier underwriting trend.

MD Andrew Tainton said the company had adopted a policy of restricting its growth "to within limits" of short-term business. However, the directors have not indicated whether the underwriting account will be returned to profitability in the present financial year.

Protea's investment income of th short-term operation rose by 18% to R25 (R21,1m). One of the company's bigg cost factors for the year was expendi on development technology w amounted to R3,6m (R936 000).

As a result, Tainton said, planned to concentrate on the in and exploitation of our new Insur puter system" this year.

Life assurance changes possible

B/Day 11/3/92

(58)

LINDA ENSOR

CAPE TOWN — A fundamental restructuring of the life assurance industry could take place if the Sixth Schedule to the Income Tax Act is scrapped in the forthcoming Budget.

Discussions on the abolition of the much disliked legislation are apparently under way, but no comment was forthcoming yesterday by the financial authorities.

Finance Minister Barend du Plessis' special adviser, Japie Jacobs, and Financial Services Board executive director Piet Badenhorst refused to comment.

The Sixth Schedule was introduced in 1972 to differentiate between and demarcate building societies' and life assurers' areas of business.

It was originally promulgated following complaints by building societies that life insurers writing singular premium business were competing with deposits with a five-year term. The schedule imposed a double taxation on life policies with a term of less than 10 years.

Further amendments outlawed single premium endowment and part endowment policies and required inter alia that policies had to have a life insurance element to them.

Subsequent amendments rendered the schedule a highly complex and unwieldy piece of legislation, the abolition of which has been long called for.

An industry spokesman said this week that the scrapping of the schedule would have radical implications for the life assurance industry and would probably require an amendment to the Insurance Act.

The need for a replacement measure is apparently the one obstacle to the immediate removal of the schedule from the statute books.

The spokesman said life assurers accepted there was a need for legislation to prevent them from undertaking deposit-taking business and had agreed that a five-year limit was reasonable.

But, he said, the industry felt while some measure was necessary, this should be incorporated into the Insurance Act and not the Income Tax.

Guardian advances in improved year

(58)

B|Day 11/3/92

WILLIAM GILFILLAN

INCREASED premium rates, higher investment income and absence of major weather catastrophies helped earnings at Guardian National jump to R39,6m (1990: R26,6m) in the year to December.

Directors said earnings would have been greater had it not been for a large number of fire losses towards the end of the year.

Earnings of 395,2c a share were recorded, up from 266,4c a share in the previous year. A final dividend of 90c (75c) a share was declared which, together with the interim dividend of 65c (55c) a share, gives a total dividend of 155c (130c) a share.

The insurer, part of the Liberty Group stable, produced an underwriting profit of R1,5m against the underwriting loss of R14m recorded in 1990.

Although gross premiums surged 20% to R600m from R500m in 1990, analysts attributed this growth to higher premium rates rather than new business.

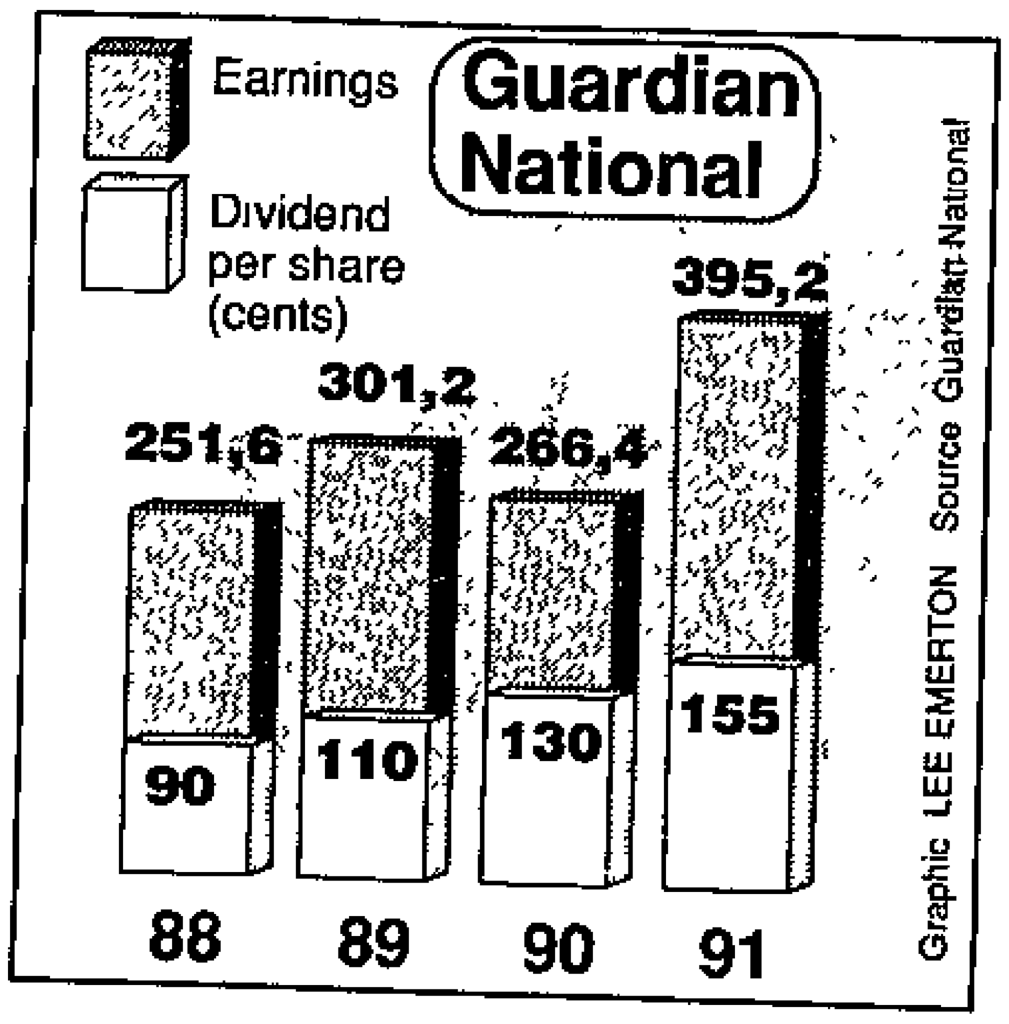
Rates had been increased during last year as a result of the underwriting loss recorded in 1990.

The rise in investment income to R49m (R44m) was reported despite lower prevailing interest rates last year.

MD Keith Nilsson said that there had been a rise in investments throughout the year.

The short-term industry had seen a turnaround in 1991 in terms of underwriting profits, one analyst said, adding that "this was achieved through the absence of large 'natural disaster' losses caused through fire, hail or flood damage".

"But the underlying position is still bad as crime-related losses and motor vehicle thefts continue to increase," he said.



However, another analyst noted it was not necessary for a short-term insurer to produce an underwriting profit in any year for it to record earnings in that year.

This was because the contribution from investment income impacted heavily on the earnings of a short-term insurer.

In 1991 earnings of R39,6m were recorded on the back of a relatively small underwriting profit of R1,5m in the case of Guardian, he said.

"One should not place too much emphasis on underwriting profits," he believed.

Despite Guardian's dividend cover of about two and a half, the group's net asset value jumped to 29,2c from 21,5c.

As the group recorded an underwriting loss of R4,6m at interim stage last year, an underwriting profit of R6,2m was made in the last six months of 1991.

Republic to rate insurers

B'Day 11/3/92

SHARON WOOD

(58)

REPUBLIC Ratings announced this week it would rate the short-term insurance industry.

The rating would reflect an insurer's ability to pay claims on time in the medium- to long-term.

This ability would be influenced by a company's financial strength, the quality of management, their competitive position, systems, internal control environment, reinsurance arrangements and its solvency margin.

Republic Ratings director Dave King said the investigation had been requested by its subscribers and brokers due to the problems experienced in the industry. He said he hoped to obtain all participants' active co-operation.

INVESTMENT: *Are retirement annuities better than endowment policies?*

Apples-or-pears choice

STAR 21/3/92 (58)

PLANNING long-term savings needs throws up the inevitable question — retirement annuity or endowment policy?

Says Old Mutual's senior legal analyst Peter Stephan: "It's difficult to compare the two, as we are not comparing apples with apples. The one is funded with pre-tax money and the other with after-tax money, while the end benefits and inside build-up of the funds are taxed differently.

"The RA provides tax savings now and taxable benefits later, whereas the endowment operates on the principle of no-tax relief, but tax-free benefits later."

Rand for rand, especially for high income earners, RAs appear to give a better ultimate benefit than endowments for the same premiums paid. Needs and objectives must, however, be the overriding considerating when making the choice, Mr Stephan says.

"Very often, a combination of RAs, endowments and unit trusts is the answer, as all insurance products are sold to meet particular needs. Simply put, the RA is designed to provide a pension after retirement, while the endowment may be taken out to meet a number of capital needs."

A glance at differences between the two may help determine choice from the start.

- An RA must be owned by an individual, while an endowment can be owned on the life of another (including company-owned).
- The minimum term for an RA is one year, provided maturity is after age 55. The minimum term to achieve a tax-free payout on an endowment is 10 years.
- RAs have no loan or surrender values and cannot be ceded to third parties. Endowments can be ceded as collateral security and loans or surrender values are available after a minimum two years' premiums have been paid.
- Single premium contributions are allowed on RAs. These are not acceptable for endowments, although this can be overcome through a voluntary purchased annuity which funds the required premiums on the endowment.
- RAs are fully protected against creditors. Endowments may be protected up to R30 000, subject to certain conditions.
- On death or maturity, normally only a third of an RA's proceeds may be taken as a cash lump sum, while the balance pays a fully taxable annuity to the dependants or retiring member. If it is a "standard" contract, the endowment pays out a fully tax-free cash lump sum.
- Contributions to an RA are tax-deductible up to certain limits, while premiums on endowments offer no tax relief.
- The investment build-up in the RA fund is tax-free, while life offices pay tax on behalf of the policy-holders on the returns of endowment policies.

Says Mr Stephan: "Previously RA funds had to invest 53 percent of their funds in low-yielding prescribed assets, while endowment portfolios were required to hold 33 percent. These requirements have since been abolished, which should help to further maximise returns in both cases."

Liberty to strengthen bonds with Stanbic

STAR 12/3/92

By Sven Lünsche (58)

Liberty Life looks set to further strengthen its ties with Standard Bank Investment Corporation (SBIC) over the next few months.

Chairman Donald Gordon said at the presentation of the group's 1991 financial results yesterday that Liberty Life and SBIC now constituted SA's largest financial services, with joint assets exceeding R140 billion.

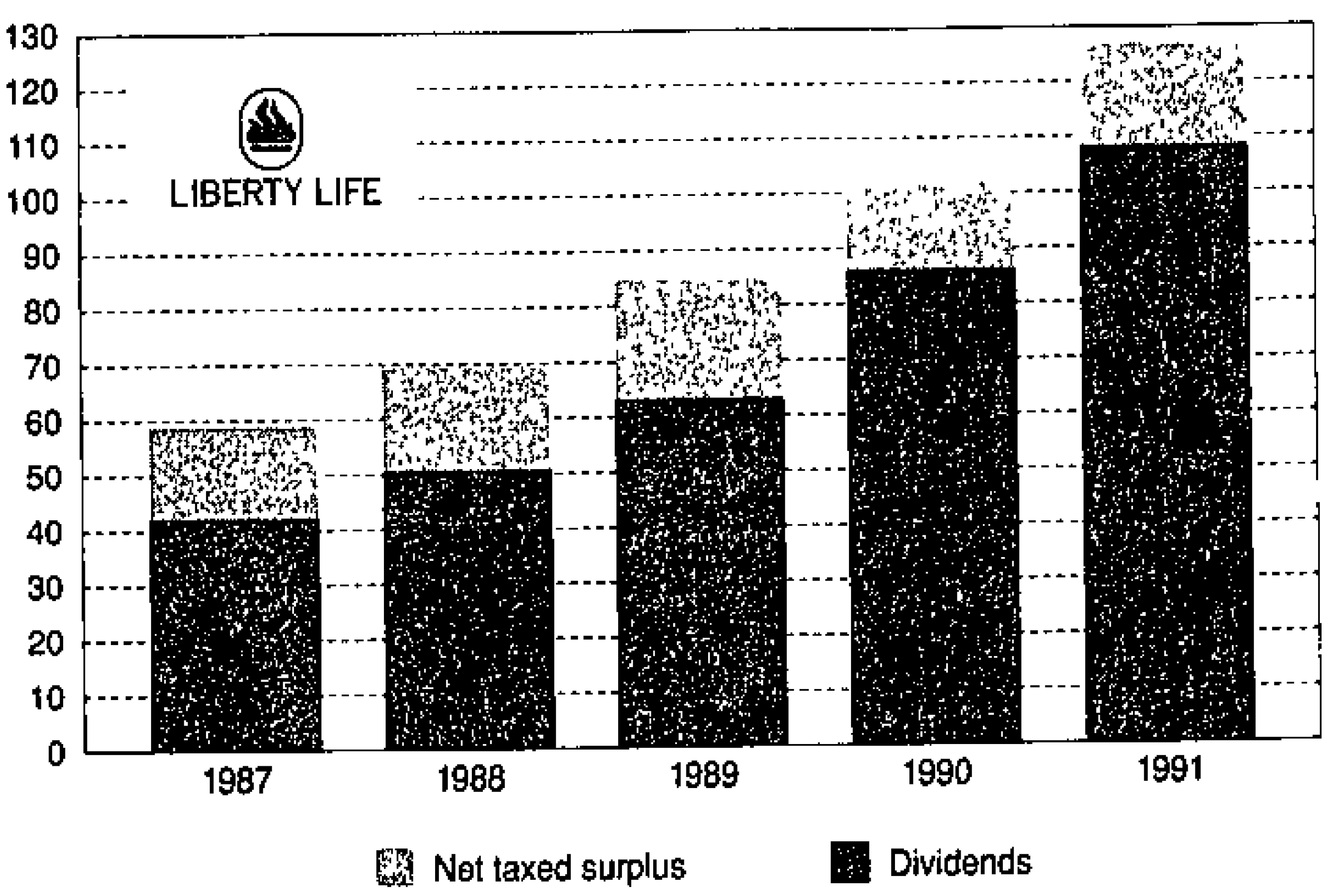
"The interface with SBIC, with whom our activities are increasingly interwoven, will be of growing importance in the years ahead when the inevitability of an even closer inter-relationship of our mutual interests could well evolve," Mr Gordon said.

Liberty Life increased its stake in SBIC last year to 40 percent after acquiring a portion of the Rembrandt Group's interest. Other Remgro shares were placed with other institutional investors.

In terms of the Securities Regulation Code, Liberty will be entitled to raise its holding by five percent in the second quarter of 1992.

"Whether we will take up this stake is an investment decision," Mr Gordon said, adding that he did not believe SBIC needed to undertake mergers to strengthen its position in the market.

Net taxed surplus and dividends per ordinary share (cents)



In 1991, Liberty Life's net taxed surplus increased from R218,1 million to R275 million, equivalent to a rise in earnings per share from 102,1c to 127c.

The total dividend has been raised by 25,6 percent from 86c to 108c a share.

The balance sheet shows strong growth, with total assets improving from R28,1 billion to R34,5 billion.

Shareholders' reserves increased by R1 billion to R8,09 billion after a strong rise in the value of its strategic investments, notably in SBIC, SA Breweries, Premier and GFSA.

The bulk of Liberty's investments were in shares and mutual funds, which, combined with property funds, accounted for R16,1 billion (1990: R11,6 billion) of the total investments worth R31,2 billion (R25,35 billion).

Net premium income and annuities received improved from R1,93 billion to R2,27 billion, while investment income rose by 12,3 percent to R1,73 billion (R1,54 billion).

Claims and policyholders' benefits increased to R1,52 billion (R1,33 billion) but, more importantly, the amount allocated to policyholders by way of bonus distributions surged by 160 percent to R2,87 billion.

Liberty contributed 79 percent of the taxed income of its holding company Liberty Holdings, which subsequently lifted its earnings per share by 25,1 percent to 395,7c (316,3c).

Liberty Holdings' total dividend has been increased by 29,1 percent from 220c to 284c a share.

Reflecting difficult economic conditions in the UK, Liberty's offshore arm FIT saw attributable income fall from R66,1 million to R53,7 million.

The greater number of shares in issue after last year's rights issue left earnings per share 11,4c lower at 36,3c. The total dividend, however, has been maintained at 20c.

The decline was largely attributable to the slump in the UK property market, which hit the earnings of property group Capital & Counties.

The drop, however, was limited as FIT subsidiary TransAtlantic increased its exposure to the insurance industry by raising its effective stake in Sun Life to 50 percent.

Mr Gordon said that joint control by Liberty and French assurer UAP of Sun Life would allow the group to explore opportunities in the financial services and property fields, not only in the UK, but also in Europe.

Brickbats, bouquets

Sowetan 12/3/92

58

FUTUREBANK, the newly-opened financial institution run mainly by blacks, was showered with brickbats and bouquets during last night's *Sowetan*/Radio Metro Talkback Show.

The chairman of the bank, Mr Jabu Mabuza, received congratulatory messages from two callers while others accused the institution of being a front of big white business.

Thami Khuzwayo asked Mabuza about the fate of workers who were retrenched by Fabcos.

"Three of those retrenched have been placed with the bank," Mabuza replied.

Responding to another question, Mabuza said: "Fabcos owns 49 percent of the shares, Get Ahead Foundation owns two percent and the other major shareholder, FNB, owns 49 percent."

Mabuza said the current recession fitted well with the bank's projections.

He said it was not a threat because the bank was tapping an existing market.

The bank hoped to have assets worth more than R250 million by the end of the year, he said.

Diverse services lift Sasfin's earnings

(58)

MICK ELLINGHAM

TRADE and equipment financier Sasfin has notched up a creditable 16,1% increase in earnings a share to 10,8c (1990: 9,3c) for the six months ended December.

The group's interim results disclose a 16,7% increase in attributable income to R1,2m (R1,06m). B/Day 12/3/92

MD Roland Sassoon attributes the group's stable performance to the diverse, yet complementary range of services which Sasfin offers.

"The recession has impacted negatively on the group's trade financing divisions which provide invoice discounting and confirm facilities," he said.

"However, the lifting of sanctions and the opening up of new markets has resulted in the success of Sasfin's foreign trade projects division."

The securitisation deal which the group struck last year enabled it to simultaneously increase the size of its rental book while reducing its cost of borrowings and overheads through economies of scale.

Sassoon is optimistic about the group's medium-term prospects and expects the SA economy to improve towards the end of 1992.

Rates on line for insurance firms

MICK ELLINGHAM (58)

THE SA Insurance Association has developed a ratings system for its members in the short-term insurance industry.

The SAIA's Personal Lines Statistics system was launched in January this year and provides underwriters at member companies with a computerised statistical system to provide rates which reflect market realities.

"This does not signal a return to the old tariff system (previously a fixed tariff was set by all insurers)," said Rodney Schneeberger, SAIA's chief executive.

"Rates will still be highly competitive between different companies and each company will be provided with confidential data on the 'burning cost' of the risks they write." B/Day 12/3/92

The SAIA systems is not related to the short-term insurance industry ratings announced this week by Republic Ratings.

FIT has big plans for Sun Life deal

S8

B/Day 12/3/92

WILLIAM GILFILLAN

LIBERTY's offshore arm, First International Trust (FIT), is set to increase its life assurance side considerably following last year's Sun Life deal, FIT chairman Donald Gordon said yesterday at the presentation of the group's results.

On the back of sharply lower earnings from its property interests, FIT's attributable income dropped to R53,7m from R66,1m in the year to December. This converted into earnings of 36,3c a share from 47,7c on the increased number of shares in issue following last year's rights issue.

An unchanged final dividend of 13c a share was declared which, on the unchanged interim dividend of 7c a share, gives a total dividend of 20c a share.

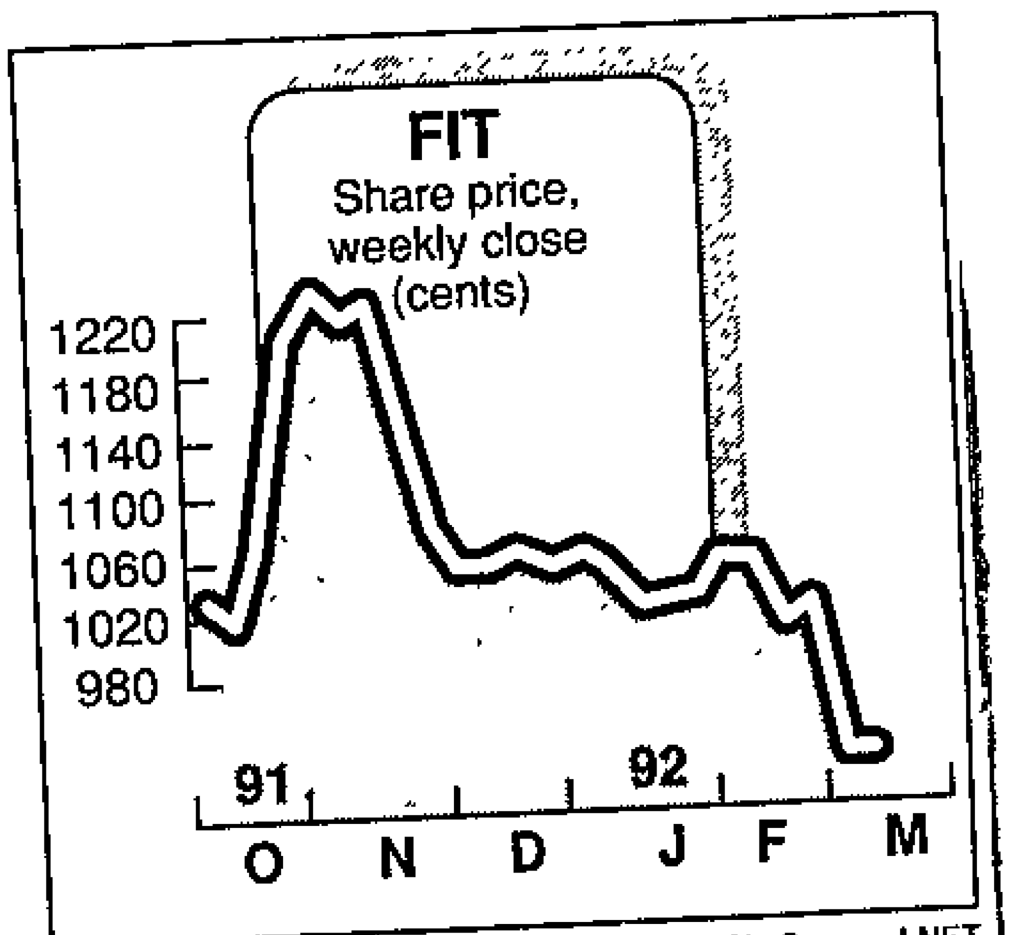
Gordon said the Sun Life deal represented the most important development for the group last year.

A jointly controlled holding company — Rockleigh Corporation — was formed by TransAtlantic, held 43% by FIT, and leading French insurance group UAP to house their interests in UK life assurer Sun Life.

Rockleigh, which currently holds over 98% of Sun Life, is to take out the remaining Sun Life minorities next month.

"The very fact that Rockleigh will own 100% of Sun life opens up enormous opportunities for us," Gordon said. The Sun Life deal will see TransAtlantic's interest in the UK assurer increase to 50% from 27,7%.

TransAtlantic's remaining interest is its 76% stake in UK property group Capital and Counties (Capco). Profits at Capco slumped sharply last year, reporting attributable income down 50% to R77m.



Graphic LEE EMERTON Source I-NET

"However, Sun Life has reported a substantial increase in new life and pensions business for 1991. The surplus after tax available for its shareholders grew 32% to R207m from R157m", he said.

As a result of plummetting UK property prices, Capco's net asset value declined to 29% in 1991 despite a £102m cash injection.

Commenting on this decline, Gordon said "as we have no intention of selling the drop in property values is largely irrelevant". He noted both Sandton City and Eastgate — both in Liberty's local property portfolio — had come on to the market at the bottom of a recession and both had proved successful investments.

'Significant' year sees earnings leap

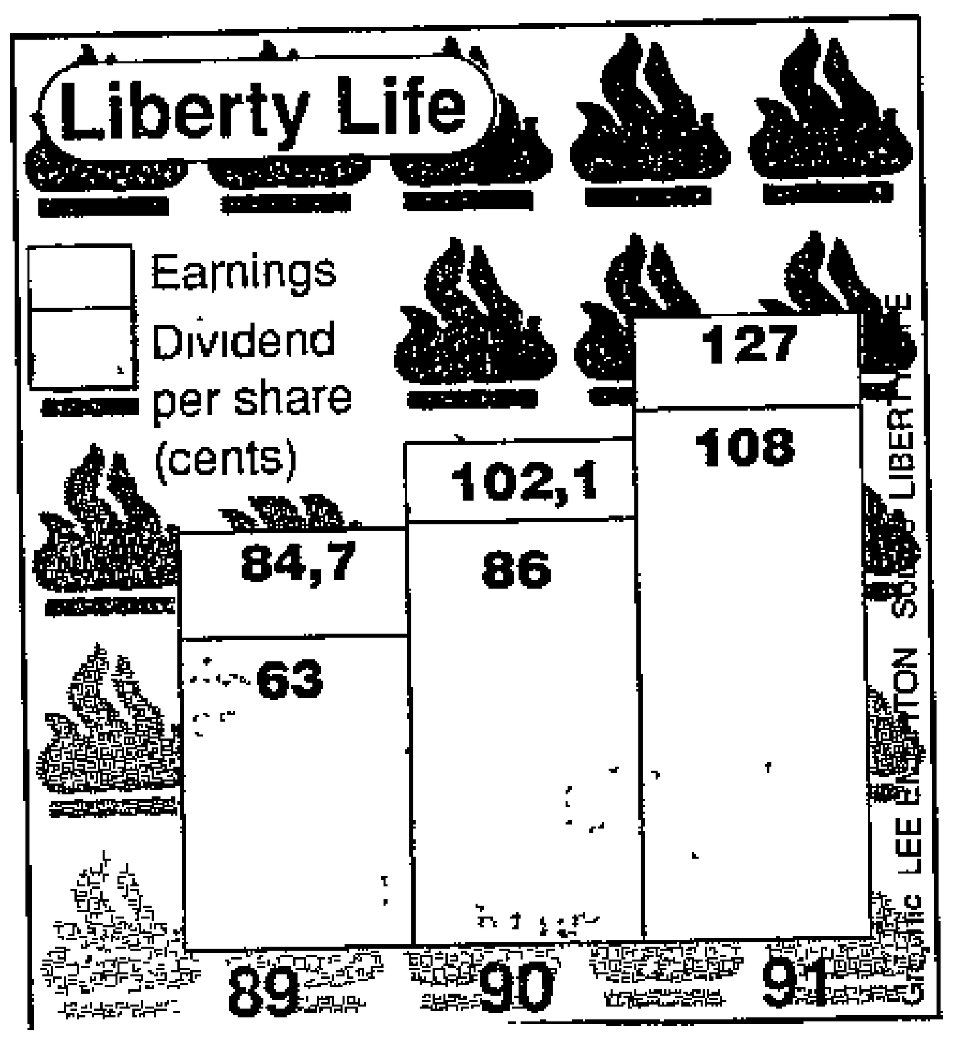
Liberty Life now on track for expansion

B/Day 12/3/92

58

LIBERTY Life, which recently clinched joint control of one of the UK's largest life companies, thereby setting into motion its long-term European expansion plans with French assurer UAP, has posted a 26% increase in earnings for the year ended December.

Group chairman Donald Gordon described financial 1991 as the most significant year in the group's 34-year history.



SEAN VAN ZYL

Transactions concluded last year would form the cornerstone of the group's growth objectives for the remainder of the decade, Gordon told a news conference.

He said Liberty's recently strengthened alliance with Standard Bank had resulted in a combined group with assets of more than R140bn, making it the "largest SA financial services business".

This year could prove just as exciting for Liberty "as we are looking at a number of other possibilities".

Liberty Life Association disclosed a 26% rise in attributable earnings to R275m (1990: R218,1m), equivalent to 127c (102,1c) a share. The income statement and balance sheet have also been restated to take into account the recent restructuring of the group's holdings and its share capital base.

Liberty Life's holding company, Liberty Holdings, reported a 25% increase in earnings to R395,7c a share, from which a total dividend of 284c (220c) a share has been declared.

Gordon said the acquisition of additional shares in the group's Luxembourg-listed TransAtlantic had resulted in the operation becoming a subsidiary incorporated on Liberty Life's balance sheet.

To Page 2

Liberty Life

B/Day 12/3/92

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☐ From Page 1

As a result, Liberty Life has rewarded its shareholders with a 25,6% increase in the total ordinary dividend to 108c a share, in line with its distribution policy of declaring at least 85% of the taxed surplus. The total dividend excludes the 199,2c a share "dividend in specie" paid earlier in the year through the issue to shareholders of First International Trust shares.

Liberty Life's total assets have soared to a new height of R34,5bn (R28,1bn), while shareholders' capital and reserves have been lifted by R1bn to just more than R8bn. In comparison, total benefits paid during the year amounted to R1,5bn from 1,3bn — equivalent to R1,4m a day. Liberty Life's life fund also rose to R20,7bn compared with the previous year's R16,6bn.

Net premiums and annuity considerations, largely boosted by the group's breakthrough into the medical benefit market, rose 18% to R2,3bn. Combined with investment income of R1,7bn (R1,5bn), Liberty Life's total income for the year broke through R4bn (R3,5bn) for the first time.

The market value of Liberty Life's investments climbed 23% to R31bn. Total investments under the group's control, including off-balance sheet investments managed on behalf of clients, rose to R44bn. However, the investments reflected on the balance sheet do not incorporate the R48bn vested in UK assurance operation Sun Life.

Annualised recurring premiums — a key indicator of business growth — climbed 18% to R482m in spite of tough economic conditions, Gordon noted. Total new business for the year grew 18% to R1,1bn.

Gordon said the immediate market success of Liberty's medical lifestyle products, launched in the second half of the year, had been a "major factor contributing to the outstanding level of new annualised recurring premiums" generated. "Inadequacies in SA's health care system have certainly created opportunities for the life assurance industry in the SA market as the needs of the market are inadequately served by government health facilities and private medical aid schemes."

Medical products produced premium income of about R60m over the past four months. In turn, Liberty's individual recurring premiums written rose 24% to R392m. However, annual pension business dropped marginally, which Gordon attributed to tight economic conditions.

He said the group was well positioned to benefit from an economic upturn in the local and UK economies.

● Picture: Page 3
● See Page 12

FM 13/3/92 (58)

CROP INSURANCE

Welcome relief (58)

FM 13/3/92

After a good claims year, co-operative crop insurer Sentraoes has handed back R10m as a discount to policyholders. It's the third time that Sentraoes has made such a gesture.

Dominating the crop insurance market with a share of about 80%, Sentraoes' only serious challenger is Commercial Union, which is in partnership with First Bowring to service the remainder of the market. While there is never a mention of a rate war, CU tends to quote slightly lower rates to compensate for the co-operative advantages that Sentraoes offers farmers.

With CU having declared that it wants a third of the total market, Sentraoes has noticeably stepped up its advertising spending in the last year. CU says that is good for the industry because it heightens awareness of the need for crop insurance.

It's a volatile business, with hail incidence the key to profit. Sentraoes chairman Johan Taljaard notes that 1991's net income of R42m, the best result since the co-op opened its doors in 1970, followed an R11,6m loss the previous year.

The difference in the claims settled between the two seasons exceeded R100m, demonstrating "the unpredictable and uncertain forces that influence the crop insurance business, as well as the need for sound reserve funds and a set policy towards reinsurance." The co-op's record surplus came in a year when the amount of cover extended was down from R2,1bn to R1,8bn.

The decision to repay R10m — beneficiaries included even those who had claimed during the season — was taken after reserves soared to R104m. The directors, says Taljaard, had previously decided that a reserve of R74m was sufficient for the amount of business that the co-op now writes. The solvency margin is 73,3%.

Underwriting crop failures, taken over the medium term, is a sound business because insurance is virtually an input cost to many farmers who face pressure from bankers to take out insurance, particularly if they operate in hail belts. But attempts to persuade farmers to insure against risks other than hail have had only limited success. Taljaard comments: "If one takes into account the vast part of crops not insured, one realises the extent of the challenges that still exist." ■

INTEREST RATES (58) FM 13/3/92

Getting the dose right

At this time of year, attention is focused on the relationship between fiscal and monetary policy. Both work best when applied with an even hand; and distortions occur in the markets when they are not. Over recent months, as outflows from the Exchequer Account exceeded inflows by more than the pro rata amount budgeted, the burden of containing inflation has fallen on monetary policy. This has kept interest rates at current levels for longer than would otherwise have been the case.

When Finance Minister Barend du Plessis presents his Budget for 1992/1993 in parliament next Wednesday, he will lay the financial ground rules for government in the fiscal year ahead. The expenditure limits he sets — and general perceptions as to whether they will be adhered to — have implications for monetary policy and financial markets.

Speculation now centres on the timing and the extent of a fall in Bank rate — expected on and off since the middle of last year.

There are two views in the market. One is that Reserve Bank Governor Chris Stals will wait for the next set of inflation figures, due in about two weeks, before making a decision. In the event of some deceleration in the official inflation rate, he will then announce a 1-percentage-point fall from the present level of 17%. A second view is that he will announce a 2-percentage-point fall on Budget day.

Those who argue the first view say:

- Inflation is still running at too high a level for anything more than a 1-percentage-point fall;
- Stals has a consistent record of conservative monetary management and recent statements have confirmed his intentions to keep a tight rein on money supply; and
- Expectations that the budgeted deficit before borrowing will be well over the desirable ratio of 3% of GDP — perhaps as high as 6%.

The opposing arguments are:

- The market is already discounting a fall of more than 1 percentage point and Stals would not allow this if he were not prepared to follow with a similar move in the official rate; and
- The deficit will not be as high as is generally expected. Developments in the Department of Education confirm that President F W de Klerk is serious about cutting government spending. And there are expectations of drastic cuts in other departments. They quote Du Plessis' comments at a press briefing earlier this year to the effect that it is not enough to shake the tree and dislodge some leaves — the time has come to cut some branches.

In this context, it would be possible for

interest rate policy to be more flexible. Proponents of this view point out that a saving would then be effected in government spending because the cost of servicing State debt will fall.

There is yet a third view of what the next few weeks will bring to change the existing pattern of interest rates. It is that Stals will announce a drop in Bank rate to 16%; but banks will drop their prime rate from its present level of 20,25% to 18,25%. This will reduce the margin between prime and Bank rate to 2,25 percentage points from its present 3,25 percentage points.

Stals floated the idea of breaking the link between the two rates in April 1990. This was at a time when banks were lobbying for an increase in Bank rate from its then level of 18%. Their funding costs were under pressure from huge shortages in the money market — as much as R5,4bn on January 31 1990 — and they wanted a signal from the central bank that would allow them to push prime up from 21%. Stals, unwilling to oblige, suggested they break free of Bank rate.

In the event, none chose this course and, soon afterwards, growing liquidity relieved their funding pressures.

The link between prime and Bank rate is purely strategic — Bank rate is seen as a reflection of monetary policy and an indication of what banks can expect in the way of liquidity. But banks are not bound to retain the link. It is more than 10 years since they were freed from the convention that prime and the rate at which the Bank lends money to the banking sector should be formally linked by a 2,5-3,5-percentage-point margin. At the time, the official Bank rate had fallen into disuse — at 13,5% — and banks were accommodated at a penalty rate 0,5 percentage points above the latest Treasury bill tender rate.

Because of sustained upward pressure on short-term interest rates, the Bank decided in February 1982 that prime should be set free to find its own level — "as a step towards more market-orientated methods of monetary policy." This left each bank to determine its own prime overdraft rate and, when Bank rate was restored to its normal role as the official rediscount rate in December 1983, the margin was only 1,75 percentage points.

If the idea is revived again, will banks take advantage of the suggestion? They have already dropped mortgage bond rates by 1 percentage point, to 19%, with Stals' blessing, an indication that they are prepared to jockey for competitive advantage at a time when demand for credit is low. If Stals maintains existing liquidity levels, they may be able to reduce prime-related rates and fund themselves adequately. They will, of course, then be sacrificing margins, so the choice will be a difficult one. And only a "yes" vote in the referendum will inspire bankers with enough confidence to make this crucial decision.

This situation could help Stals, who may see light at the end of the inflationary tunnel but would prefer to maintain the image of stern central banker until everyone else can see it too.

One thing is certain, whatever one bank decides to make of the circumstances, others will follow. So good news flowing from the referendum and Budget will pay immediate dividends to consumers. ■

Poll prompts freeze on home sales

58 123 B/Day 13/3/92

ADRIAN HADLAND

THE residential property market has been put on ice with few buyers willing to commit themselves pending the outcome of the referendum on March 17, estate agents said yesterday.

Up to 60% of buyers have made their offers conditional on a "yes" vote, while advertising for properties has dropped considerably over the past few weeks, said Aida Holdings MD Aida Geffen. "Business is too terrible, from 300 pages of weekly property advertising, we are now on only 170 pages."

Other estate agents, including Betta chairman Charles Everitt and Eskel Jawitz's Arthur Jaffe, concur that the industry is in the doldrums.

Several estate agents in the Johannesburg region estimated about two-thirds of clients were not prepared to commit themselves until the poll.

Geffen said that while property prices and demand in the platteland remained largely unaffected, the metropolitan regions had been particularly badly hit by the freeze.

Everitt was confident the market would pick up after the referendum.

Meanwhile Stuttafords Van Lines has reported a big increase for information on emigration since the poll was announced.

Report by A Hadland, TML, 11 Diagonal St, Jhb

FM 13|3|92 (58)

FEDSURE FM 13|3|92

Funding the growth (58)

With new business premiums up 23%, it's time to question life assurance-based Fedsure's ability to fund its strong growth — which has been maintained in the year to end-December — and meet new business strain.

CE Arnold Basserabie, however, points out that in terms of last year's share swap deal with Investec, Fedsure will soon be seeking to raise R80m in a rights issue. That, with capital brought in through the Investec deal, will lift shareholders' capital from around R100m to more than R320m.

SURE GROWTH

Year to Dec 31	1990	1991
Income after tax (Rm) ...	23,6	28,8
Earnings (c)	35,1	42,8
Dividends (c)	25	30,5

Issue of 13,5% convertible preference shares will be part of the R220m capital injection flowing from the Investec transaction, finalised between the groups in their share swap deal late last year.

Basserabie says the new capital will "contribute towards the financing of the growth and development of the business," including capital requirements to meet new business in the coming year. Details of the issue are expected to be announced towards the end of the month. Major underwriter will be Fedco, formed under the Investec deal and representing senior management's equity participation in Fedsure.

Also flowing from the transaction will be a separate R35m rights issue by Investec.

Basserabie does not believe the additional shares will significantly dilute the earnings potential of Fedsure ordinary shares. EPS rose 22%, to 42,8c, in the past year, in line with the compound growth rate of the past eight years.

As long as the recession continues, and the depreciating rand makes contractual savings attractive, similar earnings growth rates should be achieved by leading companies in the highly rated — and increasingly expensive — insurance sector. On the strength of last year's performance, Fedsure seems due for rerating. Compared with some market leaders, Fedsure offers a fairly generous dividend yield of 3,9%, against Liberty Life's 2,6% and Southern Life's 3%.

Some analysts are forecasting good growth for the group this year, predicting EPS will climb 22%, giving a forward yield of 4,7%. Basserabie says, barring unforeseen circumstances, growth should "remain adequate".

The alliance with Investec seems to be paying off so far, not least in offering access to an enlarged client base. With its earlier 34% investment in Saambou, Fedsure must have an extensive client list.

The 140c a share Fedsure paid for Saambou still looks expensive, with the building society showing a R73m attributable loss in its latest interim results, and the share trading at 87c. Basserabie says his group has no qualms about the investment. "Our relationship is developing extremely well," he says. "They have a stake in our unit trust and market some of our products, while we have access to their client base."

Fedsure would undoubtedly be happy to see Saambou's price pick up, but Basserabie says the 140c paid by Fedsure equals Saambou's NAV. "I think Saambou's prospects are good, especially with the new and dedicated management team they have now."

At 790c, Fedsure's price seems reasonable in an expensive sector. Its steady growth from around 370c at the beginning of the financial year is impressive. Since mid-1988 it has climbed from R2. It has hovered around present levels since the beginning of the year, but on the strength of these results it should have upside potential. *Shaun Harris*

BARCLAYS BANK

FM 13/3/92 (58)

Reforming profits

Ask shareholders in Britain's No 2 bank, Barclays, what SA's reform process means to them and the answer is simple: £100m added to last year's net attributable profits.

Reassessment of country risks and the consequent claw back of debt provisions were the biggest positive factor in Barclays' bottom-line earnings of £242m last year — down 59% after a record £1,8bn was knocked off for bad debts in Britain.

The bank retrieved a total of £211m — lifting UK international, treasury and banking operations to £329m — from the release of country risk provisions, of which almost half derived from its SA loan book. Another £99m came from Brazil, through the sale of debt and the removal of payment restrictions on trade lines of credit.

Barclays, however, is coy about the precise position of its SA book, which still falls within the Bank of England matrix of coun-

continued →

FM 13/3/92 (58)

try debt provisions because of the moratorium. Under the matrix, any moratorium that has lasted for more than 36 months scores 12 points.

SA debt thus falls into the 10-24 point range against which the Bank indicates provisions of 5%-13%. Scores of 70-84, for example, take provisions into the 59%-75% bracket; above 120 requires 97%-100%.

All Barclays will say is that its SA provision is at the top end of the matrix guideline of 13%. It will not reveal the total SA book — that is required only if loans to a single borrower or country exceed 0,75% of total assets. But there is clearly a fairly hefty profits boost waiting in the wings for the end of the moratorium, once SA regains unfettered access to the IMF.

Other UK retail banks with substantial SA exposure, such as Midland and National Westminster, take the same line and, unlike Barclays, did not reduce their provisions.

Standard Chartered, on the other hand, has always taken the line that because SA is servicing its debt fully, the loans required only the minimum guideline figure of 5%. At the interim stage last year, Standard Chartered showed SA exposure as £490m against which it had a provision of £25m. So there is not much there to flatter future profits. ■

FABCOS FM 13/3/92

Insurance brolly

58

The Foundation for African Business & Consumer Services (Fabcos) is proceeding with plans for a short-term insurance company, though other projects have been shelved because of budget problems.

Lack of funds, largely a product of losses caused by the taxi war, has forced some cutbacks and retrenchments. Last week, James Chapman, who as national adviser to Fabcos's marketing arm was largely responsible for building the black taxi movement, resigned.

But a meeting was scheduled for late this week between Fabcos, Future Bank and

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short-term insurers Aegis and SA Eagle, Fabcos's likely partners in the insurance venture. Aegis CEO Brian Seach says planning for the insurance arm is continuing and all the signals are positive. Eagle MD Peter Martin confirms this and says the projections and other details necessary for approval by the Financial Services Board will be completed soon.

The strategy is for Fabcos and Future Bank to have a controlling interest in the proposed vehicle, Business & Personal Insurance and to use the Fabcos influence to develop a base of black business clients. The two established insurers will have minority stakes — probably 24,5% each — and management contracts.

Both Seach and Martin caution that, though there is great potential for the venture, it will be run conservatively and cannot expect to become an overnight market leader. "It's certainly not a licence to print money," Seach says.

Business & Personal Insurance's potential emergence as the first black-owned insurer of any stature is being watched with tentative approval by brokers, but is also causing some bewilderment.

The company is based on the insurance licence of the now defunct Quorum. Chief executive Terence Maher quit recently after some disagreements, which included the terms of the Fabcos arrangement. He has been replaced by Johan Schuin, an insurance professional who served with the biggest insurance broking group, PFV. There is, however, speculation that the major shareholders, Fabcos and Future Bank — which is a First National Bank spin-off — will want to see a black leader there.

One major broker has expressed irritation at Business & Personal Insurance's "lack of focus." The insurer, he says, is marketing in all directions at once. This is confirmed to some extent by a PFV newsletter that notes that the company, which had been expected to concentrate on the market among taxi owners and small business, has been aggressively targeting municipal business.

But Fabcos marketing chairman Gaby Magomola says it was never the intention to concentrate on taxis. "That business has always been underwritten mainly by Eagle and Aegis. Nor are we concentrating on black business, because we will be a SA company."

PFV adds: "We are still trying to obtain details of the company's new shareholding and financial structure." A spokesman suggested that, without full information, it was imprudent for a broker to pass on business. Hopefully, he added, that would all be resolved after the meeting this week between Fabcos and its prospective underwriting partners. ■

ESTATE AGENTS (58) FM 13/3/92

Seeff moves apace

Cape Town-based Seeff property and financial services organisation's aggressive national expansion programme continued this week. It announced a merger between its business broking division and the eastern

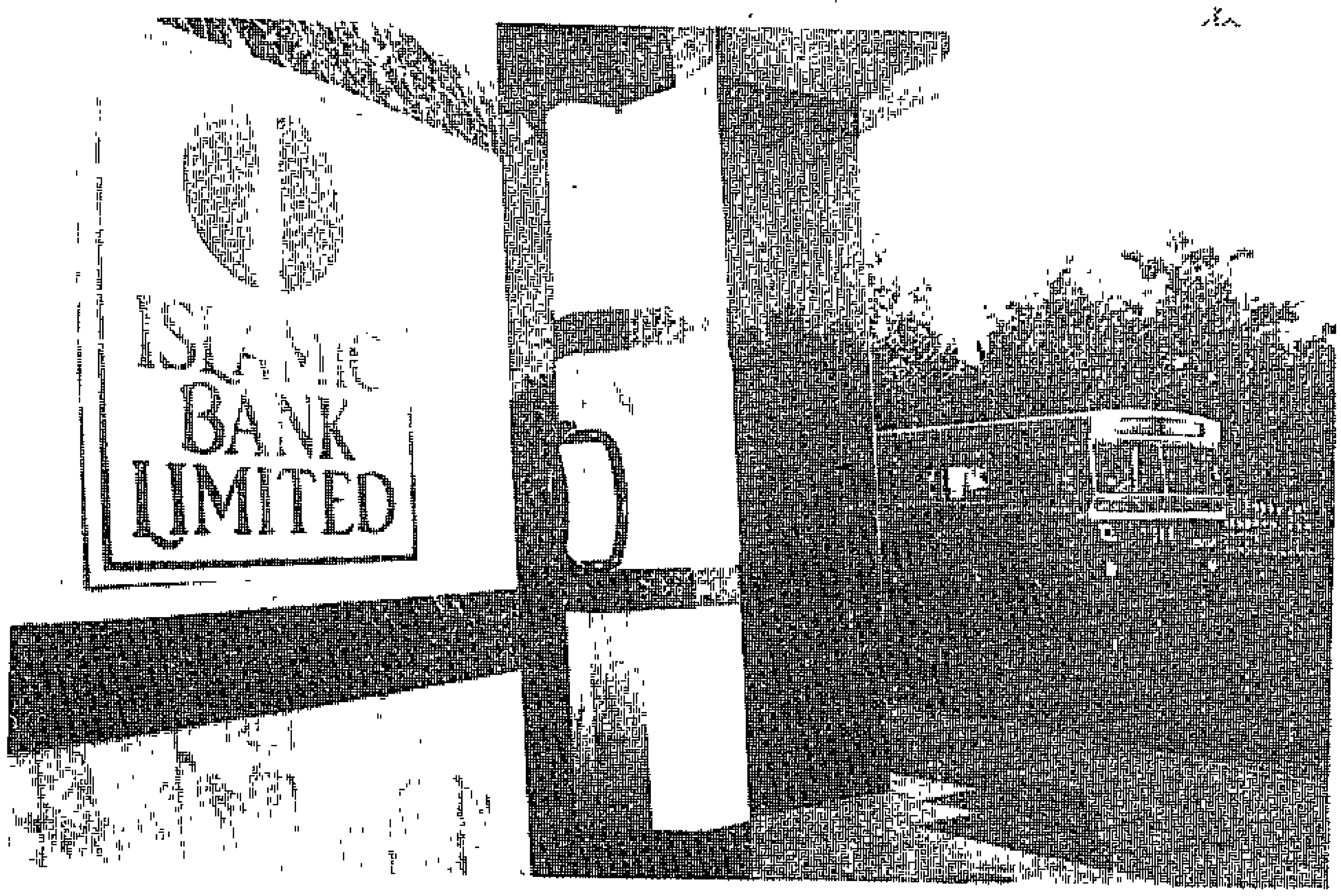
FM 13/3/92 (58)

Cape-based Mercantile Assignment Group (MAG). The new company, to be known as Seeff-MAG, will have headquarters in Cape Town but operate branches in Plettenberg Bay and Port Elizabeth. The MD will be former MAG MD Rory Stear.

Seeff Commercial Properties CEO Theodore Yach says the merger puts the company in a good position for further expansion into the Transvaal and Natal. Seeff's residential and financial services divisions have already established firm footholds in the Transvaal.

Seeff-MAG's Plettenberg Bay office will be headed by former Teljoy chief Errol Finkelstein (who was with MAG at the time of the merger) and the Port Elizabeth office will be controlled by Sandy Irvine.

Yach says the new brokerage will concentrate on medium-to-large businesses and mergers at the lower end of the corporate market. He says the merger makes Seeff-MAG the most extensive brokerage in the Cape. Expansion to the Transvaal is targeted for later this year. ■



Islamic bank ... New ideas in finance

Photo: STEVE HILTON-BARBER

No interest, no bonds — but Islamic banks work

W/Mail 13/3-19/3/92

By MONDLI MAKHANYA

ECONOMIC planners looking for a model to make finance accessible for development need look no further than the Islamic banking movement.

Although Islamic banking is founded on religious premises, its practical application could nonetheless provide important lessons on how to make financing to accessible.

Islamic banking is a relatively new concept to this country with the small Islamic Bank of South Africa having been established in 1983. It has as its premise the Muslim faith's prohibition of interest.

Established to provide local Muslims with a bank that concurred with this prohibition, the banks has grown off a capital base of R200 000 to R30-million today. It is one of 55 similar banks worldwide.

However, other instruments of making profit have had to be found. For instance, when lending money out to entrepreneurs, the bank takes a stake in the enterprise. Profits are shared between the bank and the entrepreneur.

After this stage the only contribution the bank makes to the business is in the form of checking for inept planning and ensuring that there are no irregularities in the running of the business. As the business grows the entrepreneur may then progressively buy out the bank's stake.

Another instrument is the *muraabahah* which is used for established businesses. This entails the bank buying merchandise on behalf of the business owner and selling it to him at an agreed mark-up.

In the sphere of housing finance — one which is at the heart of a war between civic associations and mortgage lenders — the Islamic Bank also has an innovative way of getting around the interest hurdle. It buys the property for cash on behalf of the prospective homeowner and sells it on to him — again at an agreed mark-up. The homeowner pays back the amount in agreed instalments and when he is unable to meet the instalment, payment is deferred for the necessary period.

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Bank chief executive Ebrahim Kharsamy says since the banks formation in 1983 more than 2 000 homes have been bought this way and there has not been a single repossession. As a result, he says, people who are being threatened with repossession by the other financial institutions often request the Islamic Bank to take over their bonds.

The downside of this however is that depositors are also paid no interest. In fact, notes Kharsamy, Muslims banking at commercial banks are obliged not accept interest for their investments. This poses the danger of your money lying idle while inflation gnaws at it.

But Kharsamy blames interest itself for fuelling inflation. "When you have high interest you push up the cost of capital and everything else down the line. This is all passed down to the consumer. These high prices further fuel infationary expectations."

Non-payment of interest on deposits has created predictable problems for the bank. "We have lot of people who want money but not too many who want to deposit," says Kharsamy.

To assist those who have invested in the bank as shareholders the institution has investments in property and industry.

In the context of the ongoing debate about the financing of low-cost housing and infrastructural development, and an African National Congress interest in establishing its own bank, the Islamic Bank's successes and failures can give good indicators of what should and should not be done.

The greatest lesson that can perhaps be learnt here is the development of financing instruments which are immune from interest rate fluctuations. While this was thought a crazy idea when it was first mooted by the Islamic Bank in the early 1980s it certainly may fall on more sympathetic ears now.

Such a bank would also have to provide incentive for depositors since it would not have the religious pull that the Islamic Bank has.

Property ads take poll pounding

STAR 14/3/92

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FRANK JEANS and KIM HELFRICH

PRE-REFERENDUM jitters have had a direct effect on the property market — and the effects have been felt in today's Saturday Star property publications.

Recently, the three sections were the biggest ever with a total of 220 pages.

Today's coverage has dropped to 172 pages and there is consensus in the real estate industry that this is a direct result of uncertainty ahead of the crucial vote on Tuesday.

One leading agent, Aida Geffen, has confirmed that several offers had been made on a residential building of about R11 million — but the parties refuse to give a deposit before March 17, and then only if the outcome is a "yes".

The Camdon's Group reports a 35 percent drop in advertising this weekend. Managing director Scott McRae says many deals have been put on hold pending the outcome of the vote.

Martin Charney, of Martin Charney Estates, says his company's advertising this week is down by about a third.

"Never have we experienced such a drop in turnover since the day the referendum was announced," Charney says.

An indication of the foreign investment hold-off before the vote is confirmed by Brian Kirchmann, executive director of the SA Property Owners Association.

"We are aware of the nervousness among overseas investors," he says. "I have been informed of one British financier who was set to invest millions in South Africa. He promptly withdrew the offer immediately after the results of the Potchefstroom by-election."

Similar trends have been noted in Pretoria.

Probably the highest price offered for a stand in Waterkloof was received on Thursday by Joy Mansfield of Pretor, but it was subject to a clause saying the purchase is conditional on a "yes" vote. "I suppose it's understandable. Property is probably the biggest investment people will ever make and they are wary at present," she says.

Another Pretoria estate agent, Jose Wijcker, says: "The inclusion of these suspensive clauses in offers to purchase is indicative of just how important a decision must be made on Tuesday.

"It is the first time in 20 years that a political decision has had this effect on a sector of the economy."

(Report by F Jeans, 47 Sauer St, Johannesburg, and Kim Helfrich, 216 Vermeulen St, Pretoria)

UNIT TRUSTS: *Greater sense of urgency sees swing gather momentum*

Now 41 funds compete

(58) STAR 14/3/92

MAGNUS HEYSTEK

THE massive swing towards unit trusts as a wide-ranging investment vehicle continued in 1991 with the total assets of the industry rising to R11,4 billion on the back of a strongly rising share prices and increased public participation.

The number of unit trust accounts rose strongly by more than 200 000 to 938 000.

Five new funds were launched which brought the total number of funds to 41.

The latest figures from the Association of Unit Trusts clearly underline the broad-based acceptance of unit trusts as an ideal investment vehicle for a wide range of uses ranging from retirement planning, educational plans and plain, simple inflation-beating investments.

And, says the chairman of the Association, Clive Turner of Nedbank/UAL: "Unit trusts will be an absolutely key industry over the next decade", quoting from his counterpart in the United Kingdom.

Total sales of unit trusts during the year reached a record R2,9 billion which, after repurchases of R1,5 billion, left a net inflow of R1,4 billion.

According to Mr Turner a number of interesting observations can be made from these figures.

"Both sales and repurchases were at record levels. This pattern followed a year (1990) when the unit trust capital index reflected a marginal decline of 1,5 percent and occurred in a year (1991) when the capital index once again showed a meaningful gain of 27,4 percent."

The continually growing level of sales through a somewhat volatile stock market environment reflects two things: higher contractual sales through systematic savings schemes and automatic reinvestment of income distributions as well as a propensity by new investors to take a longer view.

On this score Mr Turner adds: "The higher level of repurchases, while likely to be mirroring some concern amongst unit holders at the vulnerability of the current level of prices to correction, is also a factor of the expanding of the size of the industry, which will always be subject to a certain level of repurchases as an ongoing part of its business."

Mr Turner could well have added that the level of repurchases was, no doubt, influenced by a chorus of analysts, myself included, that the stock market was entering very dangerous territory.

This factor certainly contributed towards a greater sense of urgency among certain investors.

Certain proposed changes to the regulations governing unit trusts could also result in improved performance figures from certain funds. Under current legislation unit trust management companies — which are strictly guided by the Unit Trust Control Act — are not allowed to invest more than 5 percent of a fund's total assets in one particular company.

This restriction, it was felt, effected investment performance, especially when shares were rising strongly.

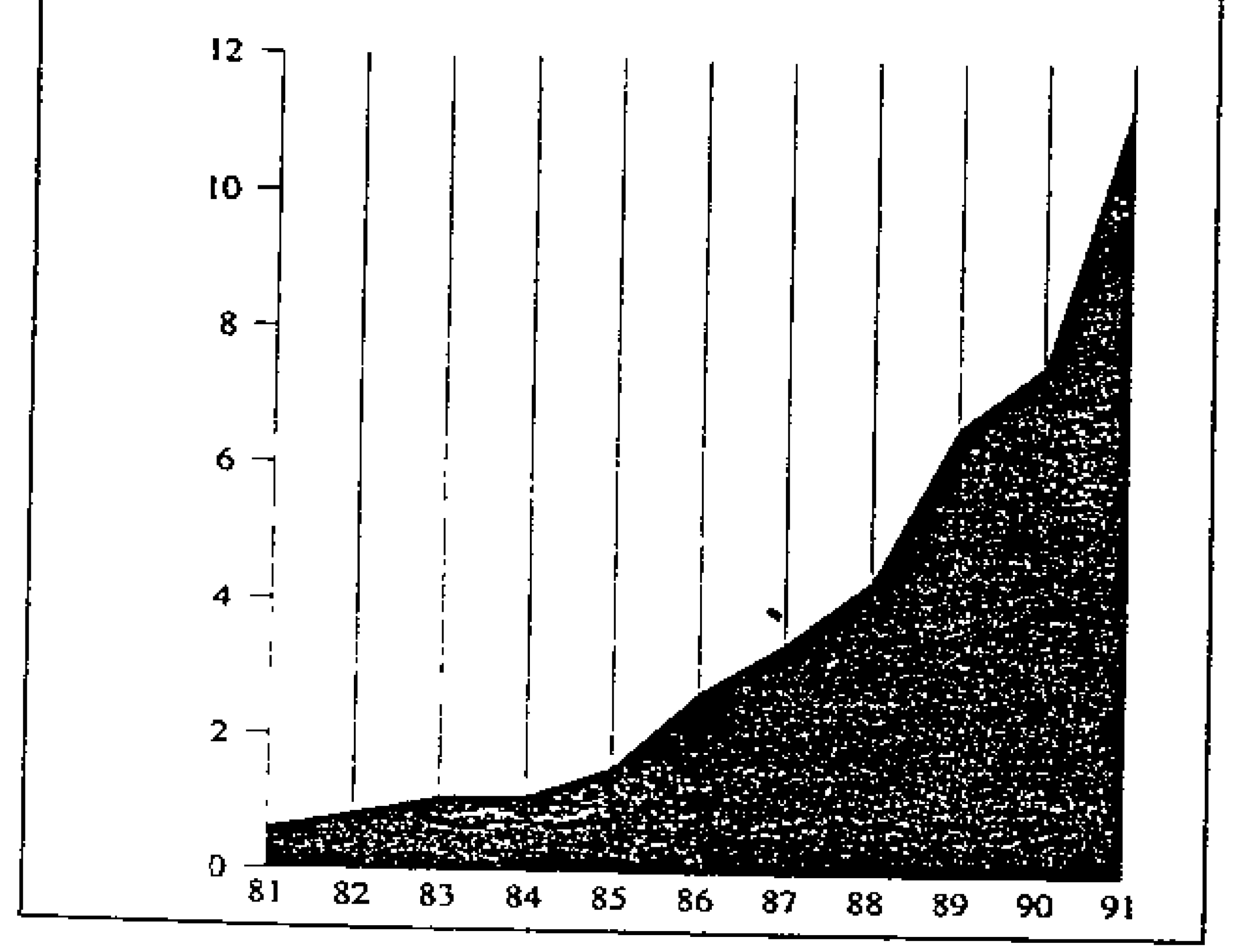
It has now been agreed that unit trusts companies can now invest up to 10 percent of their assets in any companies whose market capitalisation exceeds R2 billion.

Similarly trusts can now invest in up to 10 percent of the issued share capital of companies with a market capitalisation higher than R2-billion.

Further changes to the investment parameters of unit trust managers are also in the offing.

The industry is investigating guidelines for investing in derivative instruments.

This, it is felt, could prove to be meaningful for the industry



Top of the pops

The top performing unit trusts (Source: Quarterly Unit Trust Survey of the Graduate School of Management at the University of Pretoria).

GENERAL EQUITY FUNDS

1 YEAR (selling to repurchasers)	
1.Sanlam Dividend Trust	35,07 %
2.Southern Equity	32,17 %
3.Syfrets Growth Fund	32,00 %
4.Momentum	28,63 %
5.Old Mutual's Investors' Fund	27,06 %
All share index	31,02 %
3 YEARS	
1.Syfrets Growth Fund	31,24 %
2.Momentum	27,44 %
3.UAL Unit Trusts	26,01 %
4.Sanlam Trust	25,62 %
5.Sanlam Index Trust	25,59 %
All share index	24,56 %
5 YEARS	
1.Old Mutual Investors' Fund	21,59 %
2.Guardbank Growth	20,82 %
3.Sage Fund	19,89 %
4.Standard Bank Mutual Fund	19,67 %
5.Sanlam Index Trust	19,14 %
All share index	16,24 %
10 YEARS	
1.Old Mutual Investors' Fund	25,77 %
2.Guardbank Growth	24,59 %
3.Sage Fund	22,99 %
4.Sanlam Index Fund	22,91 %
5.Standard Bank Mutual Fund	22,12 %
All share index	23,28 %

STAR 14/3/92

Bond rescue

STANDARD Bank has launched an insurance policy aimed at helping homeowners who ~~may~~ be retrenched. (58) (103)

The AccessBond Protection Plan is being marketed by its Home Loans Division in conjunction with Standard Bank Insurance Brokers and is underwritten by Sage Specialised Insurances.

Homeowners between 18 and 55, who have been with the same employer for a year and earn at least R2 000 a month, qualify. They must have a Standard Bank home loan. Monthly bond payments will be made throughout the benefit period — six or 12 months — unless the policyholder is re-employed. The policy will pay out up to 150 percent of the bond instalment (including any subsidy) but not more than 60 percent of the policyholder's monthly taxable earnings of R12 00 a month.

Dying man in payout wrangle

By BILL KRIGE

A DYING man says he will picket the East London offices of an insurance company which is fighting a court order to pay out the money he needs to stay alive.

"I don't care what Southern Life does," said Mr Roy Johnson, who has suffered since mid-1990 from a rare and deadly genetic disorder.

"I've got nothing to lose. I'll take a placard down there and hold a one-man demo outside their front door. Maybe that won't go down too well," said the former businessman whose health is rapidly deteriorating.

S Times 15/3/92

Kill

"I'm feeling terrible. My lungs are giving me a hard time, but that's only to be expected."

"It's like breathing fire, a burning sensation which never goes," he said. The disease — alpha-one antitrypsin deficiency — will eventually kill him.

Southern Life was ordered to pay out R105 000 plus interest, but it is withholding payment pending the outcome of an appeal. Without the money, Mr Johnson cannot afford life-preserving medication which must be imported from France.

He has also been deprived of monthly disability payments of R3 000 from another insurance giant, Liberty Life, which has cancelled several life policies as well.

Without supplies of the French drug, Mr Johnson will die — perhaps before the appeal by Southern Life against a judgment in his favour is heard later this year.

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His last injection was a month ago and, despite Southern Life's declared intention to find ways to help him meet his medical costs, no money has been forthcoming.

The executive director of Southern Life, Mr Chris Liddle, said the company had an obligation to its policy holders to see the court appeal through to the end.

"While we have a case for not paying the lump sum, we are willing to try to assist Mr Johnson in this real-life drama, in terms of medication," he said.

An offer to help with Mr Johnson's medical costs (a three-month supply of the drug costs R28 000, of which his medical aid paid R20 000) still stood.

Payout

He said the delays were the fault of lawyers, not the company.

Liberty Life, which paid R200 000 to Mr Johnson before cancelling the rest of his policies, including a R3 000 monthly disability payout, could not discuss Mr Johnson's case until after the appeal, said public affairs divisional manager Sven Forssman.

Business told of serious implications of 'no' vote

S Times [CM] 15/3/92 (58)

THE Cape Town-based Life Office Association (LOA) and the Cape Town Chamber of Commerce are among prominent local organisations warning that a "No" vote in Tuesday's referendum could have serious repercussions on investment and the inflow of foreign funds.

The LOA warns that the link between investment and insurance policies could be affected.

It says in a statement: "A No vote outcome could have such a seriously negative impact on the investment markets, which influence the underlying values of policies, that the benefits arising from these policies or pension funds could be significantly impaired."

Another warning on investment comes from the South African Chamber of Business (SACOB), which says that as a major employer organisation representing 102 chambers of commerce and industry and 70 national associations it does not get involved in party politics.

However, it points out that because of the decisive role of investment — both foreign and local — in a return to a substantial growth path, South Africa cannot afford to be isolated again from the world economy and its capital resources.

It says this was confirmed by a recent International Monetary Fund report on South Africa which concluded that "if economic growth were to be raised to about 3.5% a year — or to the minimum rate that would be required to reduce the level of unemployment given the rapid prospective growth of the labour force — the investment-to-GDP ratio would have to rise to about 27% from its present level of 19%".

SACOB says that to achieve these economic results requires a high level of confidence both in South Africa and abroad — coupled with a minimum of uncertainty.

The referendum will play a major role when companies assess the political risk of doing business in South Africa, and the result should strengthen and not weaken business confidence so as to enhance investment, job creation and the addressing of urgent social needs.

SACOB adds that the referendum outcome could also have important implications for Southern Africa as a region, as it would have to be attractive to overseas business people in a highly competitive world.

The Cape Town Chamber of Commerce president, Kenneth Marcus, calls on the Cape Town business community to support a "Yes" vote in the referendum.

In a statement following the chamber's executive council meeting, he says the chamber supports SACOB's view that the referendum should strengthen and not weaken business confidence.

"This chamber has consistently advocated the abolition of apartheid and the involvement of all representative leaders in negotiations for a new constitutional dispensation in South Africa.

"The business community cannot afford to stand on the sidelines but, in its own self-interest, has to facilitate the promotion of peaceful political reform in the country.

"SACOB and others have warned that South Africa cannot afford to be isolated from the world economy, its capital resources and its markets.

"South Africa will have to compete strongly for its share of international capital, and the decision in the referendum will play a major role when companies assess the political risk of doing business in South Africa."

Mr Marcus says it is "vitally important" for every qualified voter to register his or her vote in the referendum.

He appeals to all business concerns to make it as easy as possible for staff members to vote on Tuesday.

African Life the small man's friend

S/Times (Buss) 15/3/92

AFRICAN Life is one of the few companies that has gained shareholders since it was listed in November 1990.

At the March 1991 yearend the niche life assurer had 2 640 members. At the end of calendar 1991, there were 2 983.

Chief executive Bill Jack is pleased about this. "We're a small man's stock," he says.

The major shareholder is Southern Life, which has nearly 80%. There are one or two institutional shareholders.

The share price has more than doubled to 270c since its listing, albeit in a buoyant sector.

Mr Jack admits to being puzzled by the conventional wisdom about shareholders.

Institutions do not sell shares, but accumulate them in tradeable companies where they can get a meaningful stake. But what then, makes a tradeable share if institutions do not sell but only buy?

Lower-income earners are African Life's target market and much of its sales drive is aimed at blacks.

The group is keeping a close eye on how Aids develops. But to single out life offices as the most vulnerable to Aids liabilities is naive.

Mr Jack says: "To tell you the truth I am less concerned about the liabilities side of my balance sheet than I am about the assets.

"We pay out only when somebody dies. We can calculate the risks and make provisions. We can adjust the terms of our policies to take care of the future. That is the life assurer's business.

"But we have less control over our assets. If Aids becomes a disaster for life offices, it will be only after the whole economy has suffered horrendous damage.

"How much will we be able to realise on our investments if the economy is in a mess in 10 years' time?"

African Life's results for the year to March will be published barely three weeks after the yearend, a factor which precludes Mr Jack from giving away too much.

He says policy lapses are a little higher than in the previous year, but puts it down to poor managerial control as opposed to people being unable to afford the premiums.

Sales staff turnover is a perennial problem, but Mr Jack says that once somebody has been selling life assurance for two years, he or she tends to stay in the game. The high fall-out rate occurs before then.

"Egos are rejected every time a salesman fails to clinch a deal. But they need the ego in the first place to do the job. The very thing that makes them successful can also destroy them."

Recurring premium income has risen by 30% a year compound over five years and new business 39% — well ahead of expense increases. Investors can expect more of the same.

African Life focuses both in marketing and the stock market and nobody has been let down. More power to its elbow.

MONEY MARKETS by Sheridan Connolly

Motionless markets wait for Wednesday

58

B/Day 16/3/92

NERVOUSNESS hung over a quiet and fairly dull market last week. Rates moved sideways with players reluctant to assume positions before tomorrow's referendum, and also before the outcome of Wednesday's Budget.

The 90-day liquid BA rate held steady at its new three-year low of 15,85% established at the beginning of last week. This rate is now at its lowest level since February 1989 when the BA rate dropped to as low as 15,25% from an initial 15,65%.

The market seems comfortable with the rate steady at its current level and, despite continued good demand for paper, there does not seem to be much scope for sharply lower rates at this stage.

The referendum result will, at least, give the markets some direction — particularly the capital market which is more sensitive to foreign investor sentiment. A "no" vote would be detrimental to foreign participation in longer-term investments but could drive money market rates down as demand for short-term paper would be much stronger.

As one dealer said: "People will have to put their money somewhere."

Meanwhile the Reserve Bank continued its struggle against strong liquidity conditions. The Bank issued two special Treasury bill tenders which were well received.

The average rate on the special issues dropped from 16,29% at the beginning of the week to 16,24% for its special issue last Thursday.

The three-month Treasury bill rate continued its downward slide last week with the average rate for the weekly tender slipping to 15,57% from the previous week's 15,63%. Applications for the allotted R200m tender on offer amounted to R971,05m.

The money market shortage continued to drift around recent levels and fell slightly towards the end of the week to R1,032m on Thursday from R1,505m at mid-week.

The market was still looking for a cut in interest rates but expectations of an imminent drop were put on hold until the referendum and the Budget.

The next set of consumer inflation data for February is due out at the beginning of next week.

Reserve Bank Governor Chris Stals can be expected to wait until the figures shed some light on the success or otherwise of the Bank's long battle against the stubborn rate of inflation. He has remained determined to retain high interest rates until inflation is well under control.

Property market hit by poll fears

LINDA ENSOR

CAPE TOWN — The referendum has brought the sale of private homes in Cape Town to a virtual standstill, and international interest also has cooled off considerably, say estate agents.

A survey of estate agents conducted by the Seeff property group found that where an offer to purchase was made, buyers were often inserting a clause to the effect that should the referendum result in a win for the "no" vote, the offer would be withdrawn.

"The only logical conclusion one can draw is that buyers are running scared because they believe a 'no' vote will demolish home prices," said Seef international sales director Carmella Seeff in a statement.

"For most of us our home is the single largest investment we will ever have and is the basis of our security. It is absolutely vital that we protect this with a resounding 'yes' on Tuesday or we will feel the consequences in our pockets for years to come," Seeff said.

She said that since the announcement of the referendum, international property inquiries had practically dried up.

"Even the weaker financial rand is not encouraging long-term investors. Everyone overseas is just waiting on the sidelines to see how we will vote before they make any moves. If we are looking for positive interest from overseas, we can anticipate that it will come only after a 'yes' majority. Any other result will drive them away."

Report by L Ensor, TML, 122 St George's St, Cape Town.

Liberty changes 'may affect earnings'

B/Day 17/3/92 (58)

WILLIAM GILFILLAN

A CHANGE in the way Liberty Life will account for earnings from UK-based life assurer Sun Life could have a material impact on Liberty Life's bottom line earnings, executive director Farrell Sher said yesterday.

After the TransAtlantic/UAP deal late last year — when the two groups took joint control of the assurer — Sun Life's earnings would now be equity accounted by TransAtlantic, Sher said. TransAtlantic had previously accounted for Sun Life as a normal associate. As a result, earnings from the life assurer had an impact on TransAtlantic only to the extent of any dividends received.

But now 50% of the earnings from the life assurer will be reflected in the results of TransAtlantic, which itself is consolidated by Liberty Life.

This change could be significant as chairman Donald Gordon gave a bullish outlook on Sun Life's prospects when he presented Liberty's results last week.

Although the Liberty Group has been diversifying into the international scene for over ten years, the earnings derived from its operations abroad "had not been material" in the year to December, a Liberty spokesman said.

This explained how Liberty Life recorded earnings growth of over 25%, while its offshore arm, First International Trust (FIT), reported a 19% decline. The small contribution can be attributed to "earnings filtration", which results from earnings from the underlying operations passing through a large number of holding companies before ending up in the ultimate holding company.

As Sun Life was a normal associate of TransAtlantic until November last year, the assurer's 32% improvement in the surplus after tax available for its shareholders to R207m from R157m would have impacted on TransAtlantic's earnings only to the extent of higher dividend payments.

This explains how FIT recorded a 19% decline in earnings despite the improved results at Sun Life. However, the change in accounting policy, combined with TransAtlantic's increased shareholding to 50% from 28%, means the fortunes of the UK life assurer would have a substantially greater impact on FIT's (and Liberty Life's) results from now on.

Bank, ABSA mum on 2% loan

(58) CT 17/3/92

JOHANNESBURG. — ABSA and the Reserve Bank yesterday refused to comment on whether Absa had received a R2bn loan at 2% from the Bank. Governor Chris Stals said the Bank never disclosed information about transactions with the financial institutions because of the confidentiality clause in the Deposit-Taking Institutions Act.

They were responding to a statement by Free State Agricultural Union president Pieter Gous in Bloemfontein yesterday that the executive of the FSAU had been shocked by the reported loan. He added the union found it unacceptable that the aid was going to a financial institution when agriculture had tried for several years to get similar aid.

'Charge agents for Masterbond' (58)

SHERIDAN CONNOLLY

INVESTORS in Masterbond should lay charges against any financial institution that acted as an agent for the group after February 1 1991, Masterbond Victims Fund spokesman Ray Netto said yesterday. B/Day 18/3/92

Netto said any financial institution that acted as an agent for Masterbond after that date did so in contravention of the Deposit-Taking-Institutions Act.

Netto said such action by thousands of Masterbond investors would force the authorities into some form of serious action.

The Masterbond Victims Fund, has expressed lack of faith in state-appointed curators because no action had yet been taken against Masterbond's management or any officials guilty of "a dereliction of duty".

More than 20 000 investors were affected by the R500m Masterbond fiasco, described as the SA's worst financial disaster. Most were pensioners who had invested R20 000-R40 000.

Johannesburg attorney Allan Levine yesterday confirmed that he and Masterbond Victims Fund chairman Don Mackenzie would shortly meet with Jan Swanepoel, the director of investigation in terms of the Investigation of Serious Economic Offences Act.

Industry holds thumbs for a 'yes' vote

BDay 18/3/92 (58)

THE property industry, having called strongly for a "yes" vote in yesterday's referendum, is anxiously awaiting the outcome. It expects a boom if the answer is "yes", and a slump if it is "no".

The SA Property Owners Association (Sapoa) said it was perturbed about the side issues that had been introduced into the referendum debate.

"The fundamental question is whether SA can afford, both morally and from a business perspective, to move back to where the world vilified us and where we all suffered as a result of sanctions," said executive director Brian Kirchmann.

Lew Geffen estate agents chairman Lew Geffen says the past week and the weekend's show days have seen a frenzy of negotiating and bartering.

"Although most sales have been put on hold until the results are known, all are subject to the referendum result," he said.

"Some sales are subject to a 70% yes vote in the referendum. However, there are those buyers who are using this as a lever to get properties at lower prices.".

A "yes" vote would spark a renewed scramble for properties as the mandate for stability and economic growth is given the green light, he said.

Seeff Residential Properties (Transvaal) MD Bernard O'Riain said a "yes" vote was essential for the property owner as economic influences had already put a lid on property growth this year.

"To thrive, property needs an atmosphere of both economic and political stability. The referendum result is a potential threat to both the sagging economy and our political future," he said.

A resounding "yes" vote would do much to end the state of uncertainty surrounding the property industry.

"We are tired of this and we want to know where we are going," he said.

A "no" vote would result in a political storm causing property values to plummet to a level from which they would take a long time to recover.

Aida Holdings chairman Aida Geffen said the "bottom would fall out" of the property market if the vote were to be "no".

"If the vote is no, property owners will suffer losses amounting to billions of rands and the peripheral effects will be very serious," O'Riain said.

Axe hangs over Absa dealers (58)

B/Day 18/3/92

TIM MARSLAND

UP TO 20 currency dealers at Amalgamated Banks of SA (Absa) were facing the axe as the bank moved to cut costs, sources said yesterday.

Absa group executive, human resources, Petrus Claasen, who said a final decision on any retrenchments would be taken within three weeks, confirmed some staff members in the dealing room would lose their positions.

Any employee retrenched would be offered a "proper" package, but some dealers would be offered lower positions within the group.

An Absa source said Absa's recent merger with Bankorp had prompted the cost-cutting step.

There are currently about 40 dealers at Absa and about 20 at Bankorp, compared with about 85 at First National Bank.

A Bankorp source said plans to accommodate some of the affected staff members meant some dealers could be shifted into non-dealing positions.

An Absa source said there was a lot of nervousness in the dealing room. "Nobody's job is secure."

Absa had to trim its operations after the merger and the easiest way to do this was by cutting expenses in the high-cost computer and treasury sections.

The banking group said in January it was buying Bankorp from Sankorp for R1,3bn, but later revised its offer to R1,2bn.

Absa CE Piet Badenhorst said at the time the group's various divisions would continue to operate under their own brand names and there would be no mass retrenchments. He was unavailable for comment yesterday. — BDNS.

Most finrand dealing suspended

58 B/Day 18/3/92

SHERIDAN CONNOLLY

MOST major financial institutions have suspended trade in the financial rand until the final results of the referendum are made known later today.

Almost all leading institutions, except Standard Bank, confirmed yesterday they would curtail trade. Dealers said the decision had been taken in order to prevent the unit from being "hit" each time one of the 15 regions announced results.

I-Net reports that Standard Bank Treasury GM Willie Potgieter yesterday slammed the move and said the bank would attempt to make a market in spite of the absence of other players. Local banks claiming to be market makers should continue trade because the referendum was not enough reason to suspend trade, Potgieter said.

UAL senior dealer Graham Clunie said his institution would halt trade as a precautionary measure. UAL had advised its clients to complete transactions today.

Absa said it would also suspend trade. Finansbank said it would limit activity, but would do business where possible.

Finrand trading was volatile yesterday and dealers said demand in the first two days of the week had far outstripped demand in the past two weeks. There had been strong levels of foreign buying, but it had been offset by a large sell order.

Dealers said there was extremely good

☐ To Page 2

Finrand

B/Day 18/3/92

58

☐ From Page 1

demand for finrands out of London, Zurich and Hong Kong, as well as some position squaring ahead of referendum results.

The finrand ended yesterday at R3,97 a dollar, marginally stronger than its Monday close of R3,98. The commercial rand also finished stronger at R2,8828 a dollar compared with Monday's close of R2,8903.

Bullish sentiment in the capital market pushed rates down yesterday with the market confident of a majority "yes" vote.

The turnout at the polls yesterday fuelled optimism in the market, one dealer said There was fairly strong demand for the government RSA stock.

The gap between the long-term RSA 150 and the Eskom 168 bond had narrowed to about 18 points from a previous differential of about 55 points, dealers said. The RSA 150 closed yesterday at 16,47% from Monday's 16,54%, while the Eskom 168 finished at 16,29%, down from 16,34%.

STAR 20/3/92

Barclays keeps SA option open

Star Bureau (58) (101)

LONDON — Barclays Bank has confirmed that it is considering a come-back in SA, following Tuesday's overwhelming vote for change.

The bank is one of a number of European corporations believed to be anxious to return to SA.

"It is possible in the future that Barclays may operate in SA to handle large corporate business," a spokesman said.

In late 1986 Barclays made a R100 million profit when it sold its 40,4 percent holding in Barclays National Bank.

Bankorp's clean-up sees earnings dip 74 percent

STAR 20/3/92

Finance Staff (S8)

Bankorp's earnings continued to fall sharply in the second half as last year as recovery costs on the group's debt burden continue to soar.

Taxed income in the interim period fell by 42,7 percent to R31,4 million (R54,8 million), while earnings per share plunged by 74,1 percent to 5,6c on a higher number of shares in issue.

The increased costs relating to debt recoveries will delay the benefits flowing from the group's rationalisation programme, executive chairman Piet Liebenberg says.

He adds, however, that management was satisfied that adequate provision had been made for doubtful advances.

"There are encouraging signs that stringent lending policies and practices adopted over the past 18 months will provide the group with a strong platform for realistic and profitable growth."

A reduced dividend of 5c a share will be paid for the nine months to end March 1992.

In lieu of this cash dividend, Bankorp shareholders may elect to receive bonus ordinary shares in Bankorp at 288,5c per share on the basis of 1,73 bonus ordinary shares for every 100 ordinary shares held on April 3, 1992.

This will be the last Bankorp dividend paid as the group will merge with ABSA on April 1.

The main shareholders, Sanlam and Sankorp, will again accept bonus ordinary shares in lieu of a cash dividend.

Mr Liebenberg says that in the half-year the recession deepened and Bankorp continued to make high provisions for doubtful advances of some R116,9 million (R139,2 million).

"Particular attention was given to asset management in an effort to improve the quality of assets and income.

"Total assets have, as a result of this policy, decreased by 10,7 percent on an annualised basis to R29,95 billion, in line with targets set at the beginning of the recovery phase.

"Interest income decreased in line with the reduction in assets, but the net margin improved slightly to R521,9 million (R518,3 million) through improved management of interest expenses," Mr Liebenberg says.

Bankorp reduced its interest expense by 22,5 percent to R1,66 billion (R2,145 billion), while interest and dividend income was 18 percent lower at R2,18 billion (R2,66 billion).

"Operating expenditure increased by 11,8 percent to R697,5 million (R622,9 million), mainly due to the increased costs relating to debt recoveries, and this has meant that the expected rationalisation benefits will take longer to materialise," Mr Liebenberg says.

The new bank tax cost R6,7 million.

M 20/3/92 (58)

FM 20/3/92

Cronje adds that the idea for a capital transfer tax to replace both estate duty and donations tax goes back to Margo. A flat rate need not be opposed. However, aggregation of all capital transfers by an individual at a sliding scale could tempt government to establish an undesirably high maximum. ■

LIFE ASSURERS

Relief for funds?

FM 20/3/92

Life assurance policyholders could have their eventual payouts boosted handsomely as a sequel to the Budget.

Finance Minister Barend du Plessis indicated that government would study and decide later whether to accept recommendations from a committee headed by his special adviser, Japie Jacobs. These are firmly based on the principle that life offices act as trustees for policyholders' funds — a principle which Du Plessis has endorsed.

The most significant change, assuming government accepts Jacobs' reasoning, is that billions in policyholder funds will be taxed not at the marginal rate of 43% but at an average rate.

Dorian Wharton-Hood, deputy chairman of Liberty Life, suggests that means "between 30%-35%." There will be argument about that, because Liberty's high-income policyholders differ in tax profile to those of Metropolitan Life or African Life. But it would, argues Wharton-Hood, be impractical to apply different rates to various offices.

Life Offices Association deputy executive director Jurie Wessels says there will be jubilation if the trustee principle is applied firmly. Wharton-Hood comments: "It's only simple justice."

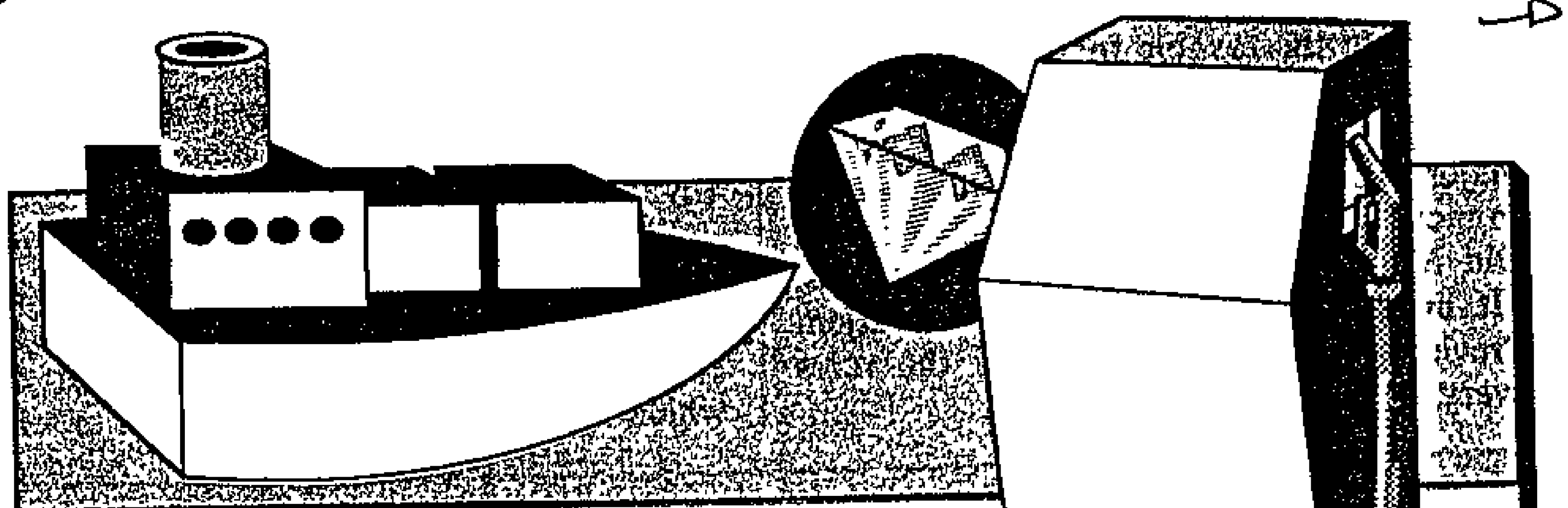
In recent Budgets there have been three deviations from the trustee principle:

☐ Taxation of policyholders' funds at the highest marginal rates;

☐ Taxation of policyholders' dividend income (for other classes of investor, dividends are tax-free); and

☐ Only a defined proportion of expenditure used to earn policyholders' income can be offset for tax purposes.

Continue →



REVENUE COMPARISONS

	1991-92 Budgeted Rm	1991-92 Revised estimate Rm	1992-93 Budgeted at existing rates Rm	1992-93 Budgeted at new rates Rm	% Change on 1991/92 revised
Inland Revenue					
Income tax on:					
Individuals	29 139	29 000	36 961	35 511	22,5
Non-mining companies	13 713	12 526	13 651	13 656	9
Gold mines	490	560	500	472	−15,7
Diamond and other mines	1 225	921	880	855	−7
VAT/sales tax	19 444	18 743	21 020	21 020	12
Gold mine leases	140	155	145	145	−6,5
Stamp duties	655	735	795	830	13
Transfer duties	675	845	650	810	−4
Other	1 155	1 809	1 327	1 327	−27
Total	66 636	65 294	75 929	74 626	14,3
Customs and Excise					
Customs duty	2 635	2 750	3 124	3 124	13,6
Import surcharge	1 409	1 470	1 670	1 670	13,6
Excise duty	3 555	3 693	4 224	4 519	22,4
Fuel levy	4 520	5 200	5 695	6 634	27,6
Ordinary levy	111	60	64	64	6,7
Miscellaneous	233	225	252	252	12
Total	12 463	13 398	15 029	16 263	21,4
Less: Customs Union payments	4 233	4 655	5 040	5 040	8,3
Total	8 230	8 743	9 989	11 223	28,4
Total Revenue	74 866	74 037	85 918	85 849	16

continue →

P.T.O.

Barclays looks at returning to SA

(58) Own Correspondent

LONDON — Barclays has been tipped to be the next big British bank to return to SA, following the lead set by Standard Chartered last year. BDay 20/3/92

The group clawed back £100m in provisions made against its loans to SA after a risk reassessment which was reported in the 1991 results. Yesterday a spokesman said Barclays, which sold its 40% in Barnat in 1986 to Anglo American, De Beers and Southern Life, was "monitoring developments in SA with interest".

He said it was possible Barclays may, in the future, set up representation in SA to handle large corporate business there and to service global business.

Yesterday the London Evening Standard cited "senior political sources" in SA as claiming a "major European corporation" would buy 25% of a business it sold to SA interests, paying more than the original price. Barclays denied it was the company.

Treasury bill tender tests market

B/Day 20/3/92 (58)

HAROLD FRIDJHON

THE weekly Treasury bill tender is to be divided into bills with three maturities from today, three months, six months and nine months.

In aggregate, the bills on offer will remain R200m but the breakdown in today's tender will be R100m in three months' paper, and R50m in both the six months and the nine months periods.

Money market opinion is that with this week's tender, the Reserve Bank is testing the market's response to bills with longer maturities than the customary 90 days and it is assumed that if the demand for 6-month and 9-month paper is strong, the Bank will try to meet part of that demand.

The money market has been hyper-liquid for some months now with insufficient assets for investments.

Bankers' acceptances are in short supply and banks have made informal representations to the Reserve Bank to create new instruments.

The stretched-out maturities will give some flexibility both to lenders and to the Treasury. And perhaps Wednesday's Budget will enable the Bank to increase its borrowing in the short-term market.

Bankorp's taxed income tumbles

B|Day 20/3/92 (58)

HAROLD FRIDJHON

BANKORP's last statement as an independently listed group shows its taxed income for the six months ended December 1991 declined by 42,7% to R31,4m from R54,8m earned in the comparable period in 1990.

From April 1 the bank group will be merged with Absa.

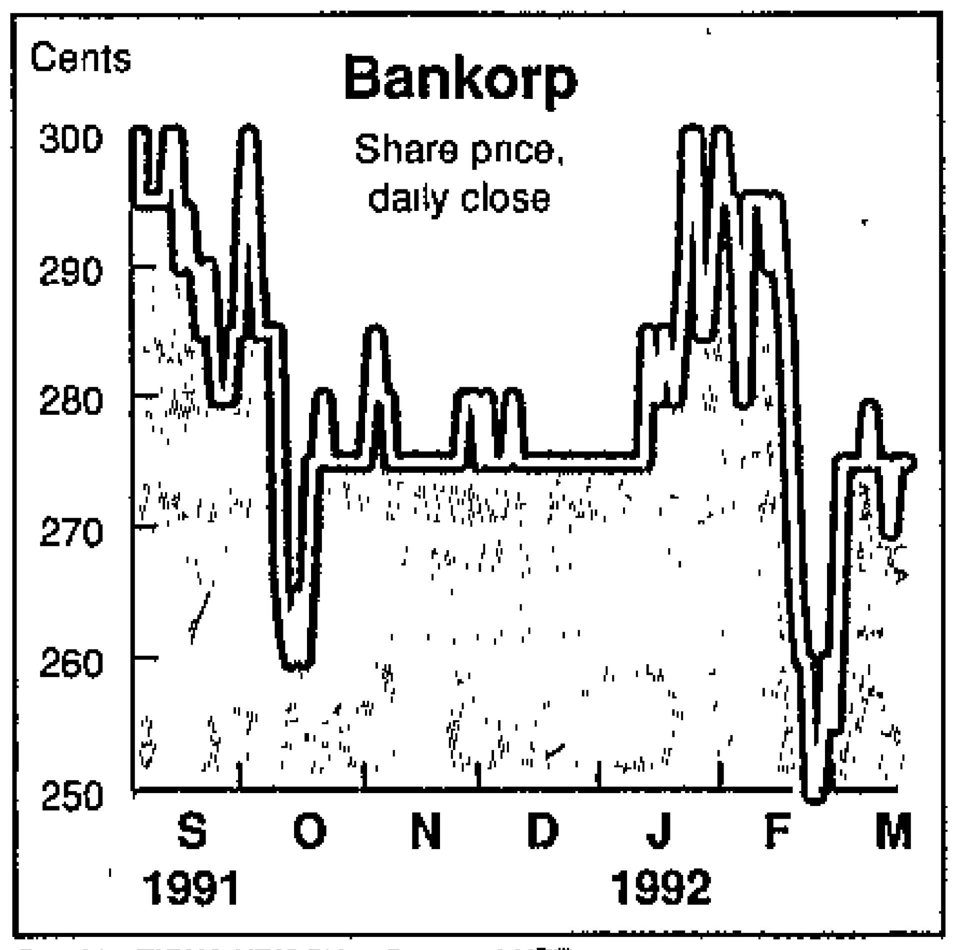
The net margin between interest and dividends earned (R2,184bn) and the cost of funds (R1,663bn) was marginally higher at R521,9m.

The interest income, however, dropped to R2,184bn, from R2,664bn, largely due to the decline in advances to R20,680bn from R22,793bn. The cost of funds and other expenses were R483,4m lower.

Provision for bad debts at R116,9m was lower than the previous December's R139,2m but the increased costs incurred in debt recoveries caused operating expenses to rise R74,6m to R695,5m. This, says the report, "has meant that the expected rationalisation benefits will take longer to materialise".

Net income of R54,5m — R26,8m lower — was further reduced to R31,4m by R1,6m taxation and R21,5m for tax equalisation.

The curtailment of activities is reflected in the decline in deposits to R23,120bn from R25,993bn and the drop in liabilities under acceptances by R781m to R2,196bn. Total assets were lower at R3,616bn.



Graphic FIONA KRISCH Source I-NET

Management is satisfied that adequate provision for doubtful debts has been made and that the stringent lending policies and practices adopted would provide a strong platform for real, profitable growth.

The net asset value a share is 319,4c against Sankorp's cash offer of 288,5c.

Review of interest rates on the cards

BD 20/3/92

LINDA ENSOR and MARCIA KLEIN

CAPE TOWN — The Reserve Bank would have no option but to review Bank rate and interest rates in the light of this week's Budget, Reserve Bank vice-president Jaap Meijer said at the Old Mutual/Nedbank panel discussion on the Budget yesterday.

Meijer would not comment on speculation in the markets yesterday that a drop in Bank rate of up to two percentage points was imminent, but dampened any expectations that might be based on the contents of the Budget alone. "It is my personal view that the Budget has not done anything to allow an easing of monetary policy where an easing of policy was not under consideration before," Meijer said.

(58)

He said Reserve Bank Governor Chris Stals would make an announcement shortly on the monetary guidelines on money supply for 1992, and that this would include a statement on Bank rate.

The Reserve Bank regarded the Budget as mildly stimulatory in the Keynesian sense of taking up extra capacity rather than making a major contribution to growth, Meijer said. It was not a Budget orientated towards the supply side.

He said Finance Minister Barend du Plessis' degree of freedom was extremely limited, as the economy was at a low ebb and government revenue, therefore, was also low. For that reason, it had been difficult to implement the reforms proposed by the late Wim de Villiers.

Meijer added that the Reserve Bank was "thrilled" that education had received so much attention, as this was just about the most constructive thing that could be done to achieve redistribution through growth.

Bankers said yesterday any decision to cut Bank rate by two percentage points would go against Stals's persistent warnings that interest rates would come down only in line with an appreciable declining trend in inflation. A bank economist said a two percentage point decline from 17% would be in complete contrast to what had been done in the past, and it would cast doubt on Stals's sincerity about maintaining a strong monetary policy.

But bank sources said a reduction in the

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Interest rates

BD 20/3/92 (58)

☐ From Page 1

Bank rate was a possibility, and could stem from increasing pressure on the Bank to try to stimulate economic growth

The economist said with the Bank rate of 17% being only about one percentage point above the inflation rate, it could be argued that it was only a marginally real interest rate. However, he said, the Reserve Bank had to recognise inflation was here to stay.

Positive real interest rates might have curtailed a further rise in inflation, but they had not managed to reduce it, so the Bank was fighting a losing battle, he said

Continued high interest rates would lead to more liquidations and insolvencies and further pressure on consumers

He said the Reserve Bank would have to weigh up all the factors, and it could take a decision to reduce interest rates in the light of a further increase in inflation which was sure to follow increased fuel levies and excise duties and the drought

● See Page 8

INSURANCE FM 20|3|92

Dubious ratings (58)

Republic Ratings' declaration that it will rate short-term insurers has met with scepticism from several insurers. But Republic's director Dave King says he expected resistance in the industry and that pressure to issue ratings has come from his agency's major corporate clients, some of whom are concerned about the claims-paying potential in the industry.

King says three insurers, including one of the big four, have already agreed to be formally rated — which means they offered full co-operation. An informal rating is given when the assessment is made without access to inside information. He will not disclose the names of the three.

Several leading insurers approached by the *FM* say they are not candidates for a Republic rating but want to know how the agency intends to tackle the task.

Protea MD Andrew Tainton confirms his company is co-operating with Republic, partly because the overseas parent, Sun Alliance, has seen benefits from the rating system. He says the arrangement is not cheap — the insurer pays a "hefty fee" to Republic and "we supply all the information." That, he suggests, almost amounts to a self-rating.

Already paid

Among medium insurers, Hollard MD Miles Japhet (already in possession of an AA rating from Quest Insurance Advisory Services) says: "I've agreed to talk to Republic but I see no reason to pay for them to rate us when we have already paid Quest."

King says if insurers refuse to pay or co-operate, there will be informal ratings. Republic will earn its income by selling its reports to corporate clients.

All the insurers approached expressed anxiety about the competence of the people who will rate them. International ratings agencies such as Moody or Standard & Poor's employ analysts with general management-level experience within the insurance industry. King is unable to give the names and qualifications of the people on the teams which will be assigned to rate insurers, but he promises to provide the information soon. He says the agency is working on "the most comprehensive document on the short-term industry ever undertaken in SA." It is expected to be ready in a few weeks.

King says a formal rating takes, on average, two months of research. Only about 30% is about numbers — "the balance concerns strategic factors such as reinsurance programmes, management quality, asset liability management, risk management philosophy and procedures, systems and internal controls."

Just how Republic intends to assess the crucial area of reinsurance intrigues the industry. Because of retrocession agreements between reinsurers, it is often impossible for the outsider to determine where the ultimate

continue →

FM 20|3|92 (58)

risk falls, a reality recognised by the Financial Services Board which does not allow for overseas reinsurance when calculating the solvency margins of insurers. But King points out that the agency is not an "outsider" in a formal rating.

The board, like most players in the industry, read of Republic's intentions in a morning newspaper, though King says he informed the board's CEO, Piet Badenhorst.

Quest MD Robert Shaw knew something was afoot because "we had already done some ratings and Republic talked with us some time ago, apparently with a view to subcontracting their insurance rating work to us."

King confirms that talks did take place but suggests they were about Republic taking over Quest's rating role.

"It was our decision not to follow up."

Republic has issued one rating — on Credit Guarantee Insurance.

A reinsurer who looked at the report says it was thorough in its asset analysis — "the easy part" — but flimsy in assessing liabilities and nontechnical in its appreciation of reserves.

"Fair enough," King responded to that, adding that reinsurance touches the private core of an insurer's business and no client would allow details to appear in a final published report. "We do look at these things in great detail."

King suggests resistance to ratings is natural but there is a follow-the-leader syndrome. As ratings are announced, others will want to join the club. Therefore, he has concentrated on agreement for a formal rating for three insurers representing a spectrum of market size.

He says the move has been hailed by brokers, even those who do their own assessments of the claims-paying abilities of insurers.

Corporate risk managers and brokers may welcome the service but Republic seems to have been gauche in launching it. With both the Financial Services Board and CEOs of many potential target companies first hearing of Republic's intentions in the media, and with Republic unable at this stage to justify its competence, the launch could be, to say the least, premature. ■

FM 20/3/92 (58)

LIBERTY/FIT FM. 20/3/92

Memorable year (58)

Liberty Life chairman Donald Gordon says 1991 will prove to be the most significant in the group's 34-year history. It is hard to disagree, when one looks at the strategic investments made overseas in the past year, particularly the teaming with Union des Assurances des Paris (UAP) to take joint ownership of UK life assurer Sun Life.

Back home, sound results from Liberty Life — the group's dominant profit source, which increased its contributions to overall profits by one percentage point to 79% in 1991 — consolidated its position as leading company in the insurance sector. Net taxed surplus a share rose 24% over 1990, to 127c, and the dividend was increased 26%, to 108c.

Liberty Life, taking advantage of changes in banking legislation, increased its stake in Standard Bank Investment Corp (SBIC) to 40% by buying a portion of Remgro's interests in SBIC, at R45 a share.

But that is evidently not the end of the matter. Gordon notes that Liberty will be able to increase its interest by the permitted 5% during the second quarter of this year, after having previously placed excess Remgro shares with other institutional investors. The implication is that Liberty will raise its stake in SBIC to the maximum 49% interest by next year.

For comparative purposes, Gordon already chooses to regard the Liberty/Standard axis as a single entity. Taken with SBIC's assets of over R50bn, he says, the Liberty Life/Standard group, with aggregate assets over R140bn, consititutes the largest financial services business in SA.

On its own, Liberty Life increased total assets last year by 23%, to R34,5bn. With its pioneering issue of 12m new ordinary shares offered to international investors at US$11,95 a share, raising $143,4m, Gordon says the marketability and liquidity of Liberty Life's shares improved in SA and internationally. On market capitalisation exceeding R9,2bn, Liberty Life is the largest listed financial institution and now the 10th largest company on the JSE.

The share placement has diluted pyramid Liberty Holdings's stake in Liberty Life from 56% to 53%. But Holdings continued to benefit from the good results of Liberty Life and its earnings advanced by 25%, to R181m. The year's dividend rose 29%, to 284c.

Results from offshore holding company First International Trust (FIT) were disappointing, but come when the UK is going through its worst recession in 50 years. EPS dropped 24%, to 36c, after climbing 28% the previous year, though that was partly thanks to the rand's depreciation against the pound. Dividend was maintained at 20c.

FIT's 42,9% interest in TransAtlantic Holdings, the UK-registered company listed on the Luxembourg Stock Exchange, will doubtless prove more beneficial, especially as the UK company now has a 50% interest in Rockleigh Corp, in which UAP has an equal interest. By next month, Rockleigh will own all the equity of Sun Life.

SETTING THE PACE

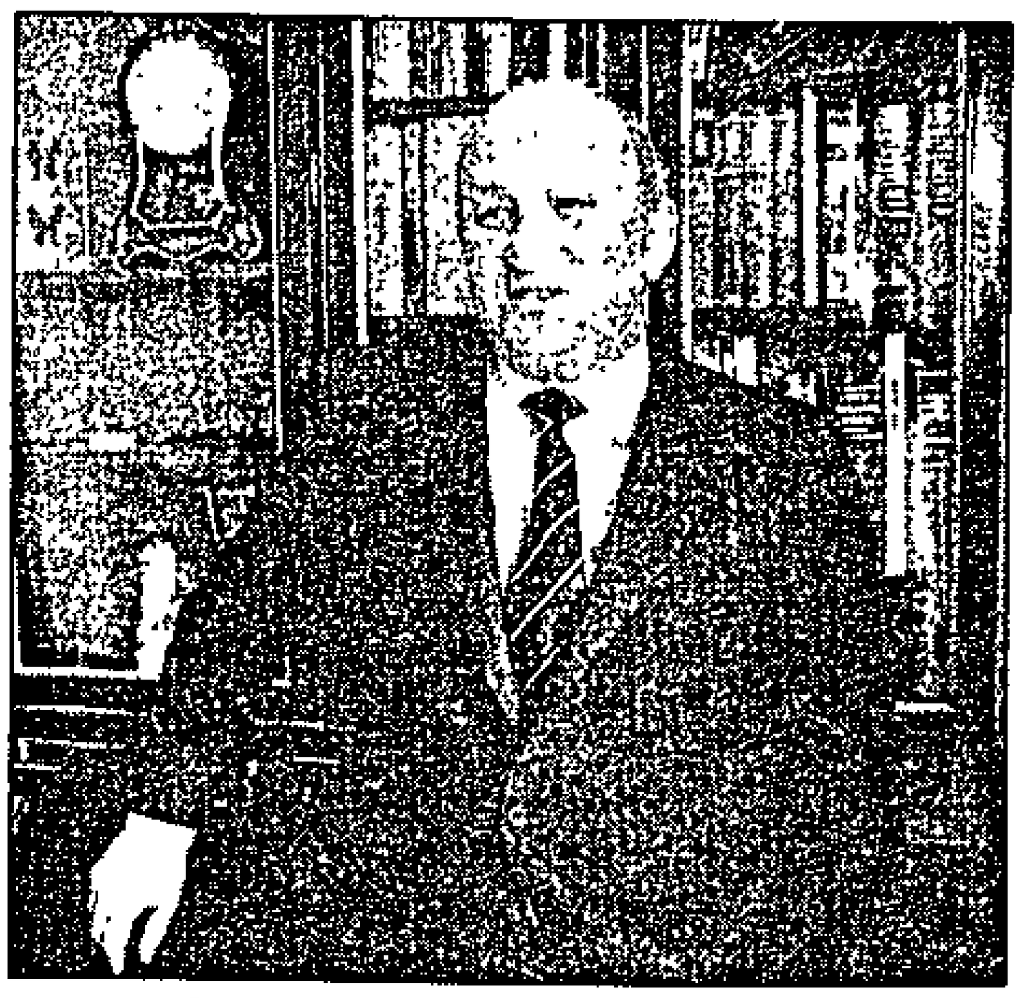
Year to Dec 31	1990	1991
Net taxed surplus (Rm)	218	275
Net taxed surplus (c)	102	127
Dividends (c)	86	108
Dividend in specie (c)	—	199

SLIPPING BACK

Year to Dec 31	1990	1991
Income before interest and tax (Rm)	87	88
Attributable income (Rm)	66	54
Earnings (c)	48	36
Dividends (c)	20	20

Hardest hit was FIT's 75% property subsidiary Capital & Counties, listed on London's International Stock Exchange. Operating profit before interest and tax was up 12% to R242m, but after interest and tax was down by R84m. Earnings, at R77m, fell to about half the 1990 level.

Gordon contends these results come during one of the most challenging and difficult years experienced by the UK property industry. Development projects are continuing and capital has been strengthened by a R524m rights issue.



Liberty's Gordon ... *who is the biggest?*

Share prices of Liberty Life and Liberty Holdings have climbed throughout most of 1991, flattening out towards the end of the year with a sharp climb in early 1992. After starting at R26 in 1991, Liberty Life's share is at 4 075c; Liberty Holdings has moved from R62 at the beginning of 1991 to its present R107.

Strongest growth in share price, however, has come from top pyramid Liberty Investors, which has gained nearly 75%, to 715c, since the beginning of 1991. Conversely, FIT's price reflects the UK recession, coming off a 1 460c high in July to 950c.

With the group performing well at home and with offshore operations well in place for expansion, the share prices are firmly underpinned.

Shaun Harris

BUDGET BRIEFS

W/Mail 20/3 - 26/3/92

■THE stamp duty on credit card, cheque, transmission and telebank accounts debits is to increase from 10 percent to 15 percent as of the first of May. Finance Minister Barend du Plessis hopes to raise R35-million in this manner.

■BUSINESS trusts will now be treated as companies for tax purposes, but details on this will be given when the Income Tax Amendment Bill is tabled in parliament later this year.

■OF immediate concern to the man in the street is increased duties on alcohol and tobacco. There is an extra 4,8c per litre, or 1,5c per dumpy, duty. Duty on spirits has gone up by 37,7c per 750ml. W/Mail 20/3 - 26/3/92

With fortified wines duty goes up by 10c per 750ml and with unfortified wines it will be 6c per 750ml. Sorghum drinkers get off much lighter with duty on this brew being raised by only 1c.

Smokers face a 2c increase in duty per 10 cigarettes. Duty on cigarette tobacco will increase by 2c per 50g while pipe tobacco goes up 10c a kilogramme.

Du Plessis has promised that increases in the retail price of these items will not exceed 2c.

■IN a move that is likely to be unpopular with the money authorities waging war on inflation, the fuel levy was hiked. Petrol will cost 8c more while diesel goes up by 6c. Transport tariff increases resulting from these hikes will be gazetted today. Drought-stricken farmers were, however, offered some relief in a 2c increase in the diesel rebate.

Nasty surprise for home buyers

(58)

STAR 21/3/92

ONE OF THE nastiest surprises in this year's Budget was the increase in transfer duties payable on property purchases.

This will affect many thousands of prospective property buyers who put their purchase decisions on hold until the outcome of the referendum was known. Now they are saddled with substantially higher transfer costs.

KPMG Aiken and Peat senior tax manager Phillip Meinel says: "The effect is that anyone buying property in excess of R70 000 pays more transfer duty than previously." Transfer duty on properties costing more than R70 000 increases from 3 percent to 5 percent.

"It is noted that transfer duty rates have not been adjusted for some time and that, prior to the adjustment, there was a great difference between VAT and the rate of transfer duty.

"However, one must not lose sight of the fact that there was no sales tax on the cost of a house, apart from that on the building materials.

"When one considers the number of middle-income families unable to afford a house and the dearth of housing available below the R70 000 level, prospective home buyers have been penalised," Meinel says. There was confusion as to precisely when the higher transfer duties would apply.

Bank rate down 1%

(58)

By AUDREY D'ANGELO
Business Editor

A LONG-AWAITED cut of one percent in the bank rate, to 16%, effective from Monday, was announced by Reserve Bank Governor Dr Chris Stals last night.

He said greater stability in domestic and international financial conditions and a fall in South Africa's producer price inflation (PPI) rate had made it possible.

The cut — the first for a year — was described as "a step in the right direction" by economists and business people.

They said that together with the easing of hire purchase restrictions it would give some help to the struggling economy.

Commercial bank overdraft rates are certain to come down by 1% — although some individuals and businesses are already paying less than the current prime lending rate of 20.25%.

CT 21/3/92

Further drop

But there is unlikely to be any further drop in the mortgage bond rate at present. Most building societies, anticipating a drop in the bank rate, have already brought lending rates down by 1%.

Sanlam chief economist Mr Johan Louw said the 1% drop in interest rates alone would be insufficient to "kick start" the economy. "Hopefully this is only the first step, and this cut in the bank rate will be followed by others, in the middle of the year and towards the end," he said.

Mr Colin McCarthy, executive director of the Cape Chamber of Industries, said it would give some help to industrialists.

● Bank to intervene in finrand market — Page 17

Bond rates to fall

(58)

S Times 27/9/92

By CURT VON KEYSERLINGK

INTEREST rates for bonds, overdrafts and credit cards are expected to come down after Reserve Bank governor Dr Chris Stals's announcement of a one-percent cut in the bank rate.

Mr Herc Hefer, chairman of the country's largest banking group, Absa, said yesterday that bond rates would in all probability come down.

If Absa cut its bond rates other banks such as First National and Standard would probably follow suit.

Bankers said the bank-rate cut would put pressure on their profits as they had already dropped their bond rates this month by one percentage point.

Strong

Nedcor group chief executive Chris Liebenberg said the one percentage point cut was lower than expected and banks had already cut their bond rates.

Banking sources dismissed suggestions that Dr Stals had compromised on his strong anti-inflationary stand.

"Dr Stals is not forsaking his principles," said Mr Hefer. "He has the whole picture in front of him and he knows that the public and small businesses are suffering from high interest rates."

Sanlam chief economist Johan Louw said: "If Dr Stals were to drop the bank rate by two percentage points I would have said he had thrown his principles out of the window. As it is the drop will not spark off a spending spree."

Money supply cools

58

ST Times (Buss)

22/3/92

By CIARAN RYAN

GROWTH in M3 money supply between February 1991 and January 1992 cooled to 9,7% after three years of economic slowdown, says the SA Reserve Bank quarterly bulletin for March 1992.

But in January, M3 money supply rose to 14,7% from 12,7% in December 1991, well outside the growth guidelines of 8%-12% set by the Reserve Bank The rate of increase in mortgage advances rose sharply from 14,7% in December 1990 to 18% in December 1991.

"These growth rates in mortgage advances well in excess of the inflation rate were probably in part an indication of slower repayment of capital because of tight financial conditions and an increase in the value of real estate transactions," says the report.

Despite signs of an upturn in GDP in the third quarter of 1991, real GDP declined about 0,5% for the year, matching the decline in 1990. Real government consumption expenditure increased by 5,5% during 1991, despite a decline of 0,5% in real gross domestic expenditure.

"Total real gross domestic fixed investment declined substantially in the fourth quarter of 1991 — the eighth consecutive quarterly decline in this aggregate."

Inflation must fall, warns Stals

Banks to look at dropping lending rates

(58)

B/Day 23/3/92

SIMON WILLSON
and SHARON WOOD

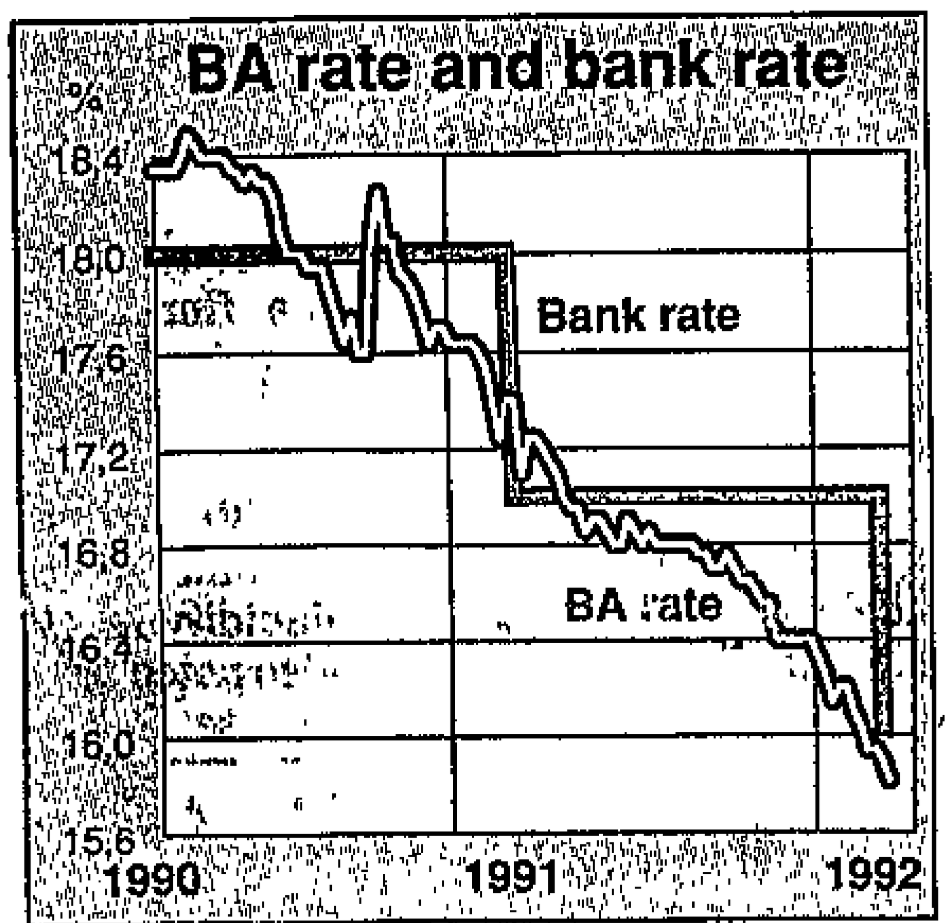
INFLATION must fall if the one percentage point cut in official interest rates announced by the Reserve Bank at the weekend is not to be reversed later this year.

Reserve Bank Governor Chris Stals issued this implicit warning in a statement accompanying the cut in Bank rate to 16% from 17%, effective today.

New Bank guidelines for money supply growth this year, also announced at the weekend, are lower and narrower than for 1991 and signal another year of tight monetary policy and a further extension of the two-year credit squeeze.

Major banking institutions will meet today to decide whether they will follow the Reserve Bank's lead and drop their prime lending rates.

Standard Bank MD Mike Vosloo said the bank still had to decide officially but it would probably reduce its prime rate. An Absa spokesman said there would be a meeting today on the issue. FNB would also meet today, a spokesman said.



Graphic LEE EMERTON Sources I-NET & SA RESERVE BANK

Stals said under present circumstances most deposit-taking institutions — banks and building societies — could be expected to reduce their lending rates accordingly.

But he stressed there was no legal obligation on the deposit-taking institutions to follow all changes in the Bank's rate and at this stage, in order to introduce more flexibility in the market system, the Bank was prepared to abolish the convention of a fixed ratio between the prime lending rate and Bank rate.

"There exists only an unwritten convention that the prime lending rates of deposit-taking institutions should not be more than three percentage points above the Bank rate."

Commercial banks were free to determine their other lending rates according to their own discretion and judgment, he said.

Banks broke with this convention in October last year when they increased lending rates by 0,25% to recover the tax levied on banking services.

In cutting Bank rate from 17%, where it had stood since March last year, Stals anticipated a fall in the inflation rate, which stood at 16,2% in the year up to January.

"Recent developments in financial conditions are encouraging, but provide no conclusive justification for a general relaxation in monetary policy," Stals said.

"The reduction in Bank rate . . . can only

☐ To Page 2

Lending rates

B/Day 23/3/92

(58)

☐ From Page 1

be justified on the assumption that inflation will decline again during the course of 1992.

"If not, the stance of monetary policy will have to be reconsidered."

The rate cut was intended to acknowledge the progress made so far in efforts to reduce underlying inflationary pressures in the economy. The financial disciplines needed to bring down the nominal rate of inflation to a more acceptable level could not be neglected.

Trends in the major components of last week's Budget reconfirmed the need for the retention of a relatively restrictive monetary policy, Stals said.

To help maintain a restrictive monetary stance, Stals said the Bank wanted to retain a money supply growth rate of about 10%.

"At this level, the rate of growth in M3 is significantly below the current rate of inflation and the existing downward pressure on inflation through monetary policy will be upheld," Stals said.

The guideline range for "acceptable" growth in M3 from the fourth quarter of 1991 to the fourth quarter of 1992 is to be 7%-10%, against the range for the same periods in 1990-91 of 8%-10%. This is the lowest level for money supply guidelines since the Bank first set monetary targets in 1986. The range is also the first to be set only three percentage points wide, a factor which imposes further discipline on the monetary variables in the coming year.

● See Page 4
● Comment: Page 14

Banks pondering a further cut in mortgage rates

STAR 23/3/92

(58)

By Magnus Heystek, Finance Editor

Commercial banks will meet today to decide whether another reduction in mortgage rates is warranted.

This follows Friday's announcement of a cut in Bank rate from 17 to 16 percent by Reserve Bank Governor Dr Chris Stals.

The announcement came as a surprise, especially after government spokesmen had denied a cut in interest rates was likely to follow last Wednesday's mildly expansionary Budget.

It now seem as if the authorities have given the tacit green light for a mild consumer-led boost to the economy because the drop in interest rates, which will affect prime overdraft rates and other short-term money market instruments, comes hard on the heels of a revision of the conditions relating to the purchase of motor vehicles and furniture.

The Reserve Bank has consistently said that a lowering of Bank rate will only be allowed once the inflation rate starts moving down.

The inflation rate figures for February are expected later today and a lower rate of increase in the Consumer Price Index (CPI) is on the cards.

But Dr Stals warned that the cut in Bank rate could only be justified on the assumption of lower inflation over the rest of the year. "If not, the stance of monetary expansion will have to be reconsidered," he said.

Banks reacted cautiously to the sudden cut in Bank rate, but it is almost certain that their prime overdraft rate is bound to come down.

However, another reduction in the home loan rate is less certain.

On Saturday, Jimmy Mackenzie, the outgoing senior general manager of First National Bank, warned that any reduction in mortgage rates would have to be matched by a lowering of deposit rates.

If the mortgage rate is reduced by another one percentage point, it will mean a reduction of ten percent in mortgage repayments since the beginning of the year.

This factor, coupled with the improved hire-purchase terms,could be a welcome boost to consumer spending.

In another important development, Dr Stals hinted that certain foreign exchange control regulations were likely to be relaxed or even scrapped entirely.

"As sanctions are now being lifted, unnecessary exchange control restrictions should also be phased out," he said.

But he said the stage had not yet been reached where the two-tier currency system could be abolished.

The financial rand, an investment currency introduced in 1985 and used by foreign investors, has traded at a discount to the commercial rand.

It also acts a barometer for foreign poltical attitudes to South Africa.

Dr Stals said the Minister of Finance (Barend du Plessis) had agreed that the Reserve Bank should start intervening in the finrand market in much the same way as it did in the commercial rand market.

Dr Stals said the bank's intervenion could bring about a smaller discount between the two currencies and greater stability in the volatile finrand market.

He said the supply of finrands would be gradually reduced if the Reserve Bank, over time, turned out to be a net purchaser of the currency.

Domestic liquidity could also be regulated through this intervention, Dr Stals said, with the application of a part of any further increase in gold and foreign reserves.

Foreign creditors with claims in the debt standstill net would now be able to sell finrands to the Bank through authorised dealers — if they elected to convert their claims into finrands.

MONEY MARKETS by Sheridan Connolly

Market in a buzz over expected bank rate cut

58 BDay 23/3/92

RENEWED expectations ahead of Friday night's cut in the bank rate had the market in a buzz at the end of last week.

Reserve Bank Governor Chris Stals announced on Friday night a one-percentage-point cut in the Bank rate to 16% from 17%. Market analysts, however, had been expecting at least two percentage points off the Bank rate — arguing that anything less would not have a significant impact on the economy.

Stals also announced the Bank's new money supply growth guidelines for M3, which proved to be in line with market expectations. The new guideline range is 7% to 10% from the fourth quarter of 1991 to the fourth quarter of 1992 — the lowest guideline range since the Bank first introduced growth targets in 1986.

The Bank has managed to curb money supply growth through its restrictive monetary policy in recent years. M3 money supply growth slowed to 10,8% in 1991 compared with 12% in 1990 and 22% in 1989.

Stals had, in recent months, held his ground, saying high interest rates should be maintained until the stubborn rate of consumer inflation showed some signs of relenting. So far, inflation has remained disappointingly steady with persistently high food prices taking the blame, but Stals had no doubt come under pressure from government and the market which were desperate for some form of relief.

Speaking on TV on Friday night, Stals warned that lower interest rates could only be justified on the assumption that inflation would decline during the course of 1992. If inflation remained a problem, higher interest rates could be considered.

Strong liquidity in the money market kept short-term rates at their recent lows and also kept the Bank busy with mopping up operations. The Bank issued three special Treasury bill tenders last week in an attempt to drain excess liquidity from the market.

The money market shortage was back at the R1,5bn level for most of the week after dropping to about R400m the previous week. The shortage was higher at R1,39bn on Thursday from R1,04bn on Wednesday.

The BA rate drifted down a further five points from its recent two-year low of 16,85% to a new low of 16,80%, although some trade was done at levels as low as 16,70%. A reduction in interest rates should not have any great effect on the BA rate because it has already discounted a 2% cut in the prime rate.

The Bank altered the format of its weekly R200m Treasury Bill tender on Friday with the introduction of three separate maturity dates. It divided its issue into a three-month, six-month, and nine-month bills.

Applications for the three-month tender worth R100m amounted to R788m at an average rate of 15,48%, the six-month R50m tender received R493m at an average rate of 14,88% while the Bank received R420m for its nine-month R50m tender at an average rate of 14,33%.

Towards the end of the week the benchmark Eskom 168 was higher at 16,11% from a previous 16,07% while government RSA 150 long bond was also up to 16,32% from 16,27%.

Bond rate decision due today

STAR 23/3/92

By Paula Fray (58)

Banks are expected to say today whether the one percentage point drop in the bank rate announced at the weekend will mean another drop in the bond rate.

Yesterday reports indicated interest rates on mortgage bonds, credit cards and overdrafts could be lowered.

But Econometrix director Tony Twine said the lower bank rate did not necessarily mean a drop in bond rates.

A drop in mortgage rates was, unfortunately, not a direct consequence of a drop in the bank rate in the present situation, Mr Twine said.

In effect, institutions had pre-empted the drop in the bank rate by dropping their rates in February.

"The drop will have a mild stimulatory effect on the economy but this is a consequence of, and not necessarily the objective of, dropping the Bank Rate," he said.

● **Banks ponder cut in mortgage rates — Page 13**

Overdraft rates drop, bonds stay

Finance Staff and Consumer Reporter

STAR 24/3/92

South Africa's major commercial banks yesterday all reduced their prime overdraft rates by one percentage point to 19,25 percent, but the home mortgage rate remains unchanged for the time being.

This decision has dashed the hopes of cash-strapped home-owners who might have been looking forward to another drop in the bond rate after bond rates were dropped early last month.

Explaining the decision not to reduce mortgage rates any further for the time being, a spokesman for the Standard Bank said that banks pre-empted the Reserve Bank's decision to lower interest rates by a "couple of a weeks".

Bond rates will only decline further if inflation comes down in the next month or two, economists yesterday warned.

The reduced overdraft rate follows Reserve Bank Governor Dr Chris Stals's weekend announcement of a 1 percent drop in the Bank Rate.

Absa announced it would reduce the prime lending rates of Allied, United and Volkskas banks to 19,25 percent from Saturday.

Nedbank also announced a reduction in its prime rate while Standard Bank reduced its prime overdraft rate to 19,25 percent with effect from April 1.

FNB will drop its prime rate from 20,25 percent to 19,25 percent with effect from March 27.

● See report Page 19.

Banks to cut prime rate

58

Sowetan 24/3/92

SEVERAL banks yesterday announced a one percentage-point drop in their prime lending rate following a Reserve Bank Governor Dr Chris Stals' weekend announcement of a drop in the bank rate.

Absa announced it would reduce the prime lending rates of Allied, United and Volkskas banks to 19,25 percent from Saturday.

Nedbank also announced a reduction in its prime rate while Standard Bank reduced its prime overdraft rate to 19,25 percent with effect from April 1.

FNB will drop its prime rate from 20,25 percent to 19,25 percent which, in effect, means cheaper monthly repayments of overdraft facilities as well as more accessible borrowing.

Recently appointed FNB senior GM Norman Axten said the bank welcomed the rate cut and believed the move would have a positive impact on the economy.

FNB took the lead recently in bringing down the cost of home loans when it dropped that rate from 20 to 19 percent.

The FNB rate becomes effective from 27 March 1992.

Reserve Bank confirms finrand intervention

BDay 24/3/92 (58)

SHERIDAN CONNOLLY

THE finrand firmed yesterday following last week's referendum result and confirmation from the Reserve Bank that it had intervened in the finrand market.

The unit finished at R3,54 to the dollar, off its opening level of R3,51 but stronger than its previous close of R3,58.

Reserve Bank governor Chris Stals confirmed last night that the Bank had intervened in the market yesterday, but "only in small amounts". The Bank would continue to intervene on a regular basis, Stals said.

Some dealers felt the Bank's intervention would stabilise the unit and boost investor confidence, but others said sporadic intervention by the Bank would destabilise the currency and it would no longer be a true indicator of foreign sentiment.

Players were unsure of how and when the Bank would intervene, dealers said.

Finrand dealers said there had been good two-way trade yesterday, with some squaring off by investors. The finrand strengthened to an intraday high of R3,49 before slipping to its closing level.

One dealer said the announcement had come at a bad time. The market had just recovered from anxiety about non-resident tax liability, which had affected investor confidence in the finrand.

The stronger finrand put mining financials and gold shares under pressure as there was confusion over the Bank's impact on finrand trading, dealers said.

Capital market dealers said rates edged up in response to the cut in the Bank rate to 16% from 17%. There was some profit-taking as well as strong overseas buying in the government RSA long stock.

Capital market rates eased last week in response to the overwhelming "yes" vote in the referendum but, because the market had discounted more than a one-point cut in the bank rate, there had been a slight upward correction in market rates yesterday, dealers said.

The benchmark Eskom 168 hardened to 16,14% at the close of trade yesterday compared with its previous close of 16,04%. The government RSA 150 was higher at 16,35% from a previous 16,20%.

In the money market the drop in the bank rate apeared fully discounted as most institutions left their 90-day liquid BA rates unchanged at 15,80%.

Major banks drop prime lending rates

BDay 24/3/92

(58)

SHARON WOOD

MAJOR banks reacted swiftly to the cut in Bank rate, announced on Friday, by dropping their prime lending rates by one percentage point yesterday.

But a mortgage rate cut is not on the cards because, banking spokesmen say, rates have already fallen by a percentage point this month in anticipation of the drop in Bank rate.

Absa led the field yesterday by dropping its prime lending rate from 20,25% to 19,25%. FNB, Standard Bank and Nedbank followed with similar reductions. The revised prime lending rates become effective at the end of March.

A bank source said banks were adopting a wait-and-see attitude about mortgage rates and that the possibility of a cut could not be ruled out. If one of the major banks was to reduce its mortgage rate, others would follow, he said.

FNB welcomed the Bank rate cut and senior GM Norman Axten said the bank believed the move would have a positive effect on the economy in general.

Standard Bank MD Mike Vosloo said his bank had no plans at present to reduce mortgage rates.

A banking source said all loans linked to prime would be reduced by one percentage point, including credit cards, overdrafts and lease agreements. There could be a delay but banks would eventually pass on the cut to customers.

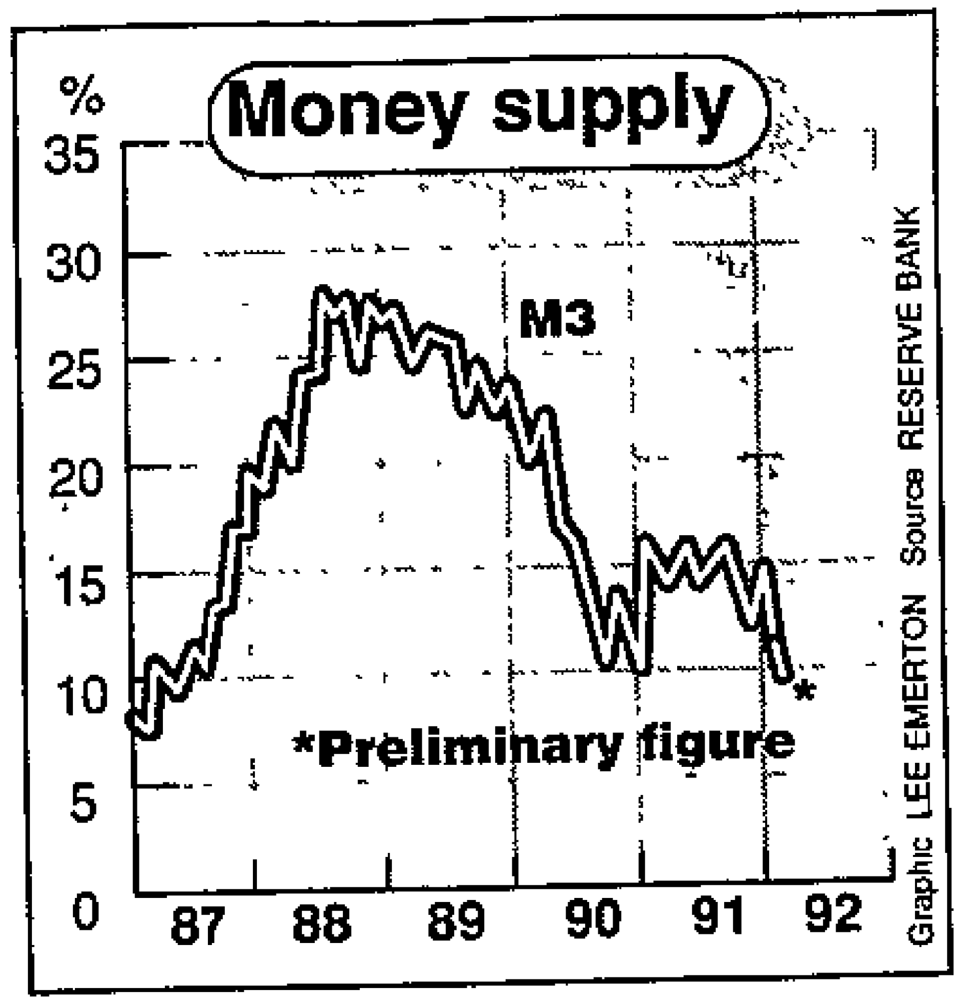
Standard Bank card division GM Alistair Graham said credit rate interest charges would come down by one percentage point, but this would take a month to implement.

24/3/92

The margin between prime and personal lending rates would remain unchanged because this was determined by the individual risk-status of the customer, a bank spokesman said.

A Standard Bank spokesman said the maximum legal interest rate banks could charge under the Usury Act would fall in line with the reduction in prime. But the Usury Act limits would change only by government decree. This normally lagged behind prime rate changes, and could take a couple of months.

The maximum Usury Act interest limit for loans of between R6 000 and R500 000 is 29% and more than 32% may not be charged on loans below R6 000.



Money supply on downward trend

B|Day 24|3|92 (58)

SHERIDAN CONNOLLY

BROAD money supply growth resumed its recent downward trend in the year to February but drifted further away from the Reserve Bank's new guideline range for 1992, according to preliminary figures released yesterday by the Bank.

The annual growth rate in M3, the broad measure of money in circulation, dropped to 10,83% in February from a revised 14,42% in January. Growth from the base guideline year, the fourth quarter of 1991, was 16,34% compared with a revised 12,09% in January.

In terms of broadly defined money supply, money in circulation stood at R188,69m in February compared with R184,89m in seasonally adjusted terms.

Bankorp economist Nick Barnardt said yesterday the 10,83% rate of growth was surprisingly high, but in the light of the current recessionary conditions, the growth rate was certainly not an indication of a sharp rise in domestic credit demand. Instead, it was more likely to be a reflection of a probable increase in the level of foreign reserves.

Barnardt said the effect of the introduction of the Deposit-Taking Institutions Act in February 1991 had distorted the base-

☐ To Page 2

Money supply

B|Day 24|3|92 (58) ☐ From Page 1

year calculation, but from now on the figure would give a more accurate reflection of money supply growth.

In a weekend statement, Reserve Bank Governor Chris Stals announced the new guidelines for "an acceptable rate of growth in the M3 money supply" of between 7% and 10% from the fourth quarter of 1991 to the fourth quarter of 1992. This is the lowest guideline level since the Bank introduced targeted growth rates in 1986.

Money supply growth in 1991 averaged 14,8% — above the Bank's 8% to 12% guideline growth range for the year from the fourth quarter of 1990 to the fourth quarter of 1991.

Stals said monetary statistics were, however, distorted by the implementation of the Deposit-Taking Institutions Act. Growth in M3 slowed to 10,8% in the year to February compared with 12% in 1990, 22% in 1989 and 27% in 1988.

Stals said the present rate of expansion in the money supply, about 10% a year, should be retained in 1992. At this level, the rate of growth in M3 was significantly below the inflation rate and the existing downward pressure on inflation through monetary policy would be upheld.

Budget move may boost insurers

B/Day 24/3/92 (58)

WILLIAM GILFILLAN

EARNINGS of short-term insurers could be set to rise following the reduction in the period after which equity investments may be disposed of without being subject to capital gains tax, analysts believe.

In the Budget, the period after which equity investments would be free from capital gains tax was halved to five years.

Analysts believed the short-term insurers stood to benefit from this change more than the life assurers as the tax authorities had in the past been "tougher" on the short-term industry.

"As the authorities view the life funds as trustees acting for the man in the street, the tax legislation applied to life offices is reasonably favourable," one analyst said.

As short-term insurers would now be able to sell off investments after five years, this gave them more flexiblity with their investment portfolios.

"Where the insurer had a high solvency margin, management could decide to dispose of low yielding equity investments and move into higher yielding gilts," an analyst said.

As the capital value of the investment portfolio could suffer when moving from low to higher yielding investments, this strategy was more likely to be adopted by insurers with strong solvency margins.

Legislation stipulates a short-term insurer must have a solvency margin of 15% (and a further contingency reserve of 10%).

Banks cut prime but not mortgage rates

STAR 24/3/92 (58)

By Magnus Heystek

All major banking groups reduced their prime overdraft rates by one percentage point yesterday, in line with the weekend decision by the Reserve Bank to cut Bank rate by that figure.

Most banks have now reduced their prime overdraft rate to 19,25 percent, which will have the effect of reducing all interest rates linked to prime, including instalment sale agreements.

But home mortgage rates will not be cut immediately.

According to spokesmen for the leading banks, Friday's cut in Bank rate was pre-empted by them a month ago when they unilaterally reduced mortgage rates.

Even at current levels, some mortgage rates on offer to selected clients are lower than the prime overdraft rate.

However, a further softening in money market conditions could soon lead to another reduction in bond rates, a banker said yesterday.

First out of the starting stalls yesterday was First National Bank (FNB) with its announcement of a one percentage point cut in its prime lending rate.

Positive impact

The drop from 20,25 to 19,25 percent means substantially cheaper monthly repayments of overdrafts and more accessible borrowing.

"First National Bank welcomes this Reserve Bank rate cut," said Norman Axten, recently appointed senior general manager at FNB.

"This move will have a posi tive impact on the economy in general," he said.

FNB took the lead recently in driving down the cost of home loans when it dropped that rate from 20 to 19 percent.

In addition, FNB customers with a cheque account and two bank services had their bond rate reduced to 18,75 percent, while the rate for FNB Gold Card holders was cut to 18,5 per cent, making it the cheapest home loan on the market.

Mr Axten said: "FNB will continue doing everything in its power to pass on meaningful benefits to customers whenever the opportunity arises."

The new rate becomes effective from March 27.

Standard Bank yesterday followed suit, reducing its prime overdraft rate to 19,25 percent, effective on April 1.

Nedbank and ABSA announced similar reductions.

Nedbank's new prime lending rate of 19,25 percent is effective on March 28.

The Afrikaanse Handelsinstituut (AHI) welcomed the lowering of Bank rate, describing the reduction as the correct action to take in the light of recessionary conditions.

Inflation worry

Executive director, Professor Joe Poolman, said yesterday that while the cut in Bank rate, coupled with the relaxation of hire purchase terms, was welcone, it was important not to stimulate the inflation rate again.

Gold and foreign exchange reserves should also be protected, he said.

The AHI was confident that if these and other factors remained favourable, further steps would be taken in the near future to stimulate the economy.

Property industry unsure of 'yes' vote's influence

B/Day 25/3/92

Reports by
PETER GALLI

WHILE the property industry has welcomed the "yes" vote in the referendum last week, players disagree about the influence it will have on the market.

Pam Golding Properties executive director Mike Bissett says it will instil investor confidence in the country and the property market. This means overseas buyers will keep their lines of communication open and local investors will again start "putting pen to paper".

Property Economist Neville Berkowitz says international financiers should be willing to lend money to a new SA well on the road to political reform, which should see interest rates come down over the next year.

"There have been many tenants sitting on the sidelines waiting for the results of this referendum and who will now be more likely to commit to longer-term leases," he said.

However, Seeff Group Holdings chairman Lawrence Seeff feels the euphoria engendered due to the referendum result was partly offset by the Budget which did "less than nothing" to stimulate growth in the construction and property market.

"The fact that only 6,5% of government spending is to be allocated to capital projects is hardly stimulatory. While there is some relief for large construction companies in the provision for economic housing, this has been partly offset by the 2% increase in transfer costs," he says.

The Minister had failed to meet the challenge of SA's current needs. Seeff was hoping for an anti-inflationary budget with measures to promote business and industrial growth.

This will have put more people into jobs. "Tax holidays could have been offered to the overseas industrial investment and moves to end the wildly expensive and irrelevant tri-cameral system could have been announced," Seeff said.

However, Camdon's group MD Scott McRae disagrees with this, saying the increase in transfer duty and the fuel price will have little impact on the market and improved overseas sentiment could see an inflow of foreign capital into local property.

"The Budget was clearly aimed at investing in political stability and the increased policy budget indicated a commitment to capital formation. This will also have a stimulatory effect on the property market.

SA Property Owners' Association (Sapoa) executive director Brian Kirchmann says the property industry can now look forward to relative prosperity.

"I believe we will soon see a number of foreign investors and developers looking for opportunities ...

Anglo American Property Services MD Gerald Leissner says the referendum result and conservative Budget could between them give a slight boost to the property market.

"The residential market, which has been dead, will start to improve, but for the commercial market to improve will need a drop in interest rates and general growth in the economy," he says.

the acquisition will be financed offshore.

and businessforms paper in Europe. — Sapa.

Interbank changes name

STAR 26/3/92

Finance Staff (58)

Interbank, (previously Interbank Discount House) has added finance services to its traditional money, capital and derivatives market activities.

To reflect the new services, it has been decided to change Interbank's name to Secfin Bank.

The finance services offered by the bank will focus on home loans of R200 000 or more and asset financing for the professional market, high-grade companies and government and quasi-government sectors.

Secfin Bank has shareholders' funds of R22 million and is a wholly owned subsidiary of Sechold, the listed bank holding company, with shareholders' funds of R60 million.

Sechold's major shareholders include Sanlam, Old Mutual, ABSA (via United Insurance), and Rand Merchant Bank.

Secfin's annual results to June 1991 showed a taxed profit of R3,579 million an shareholders' funds of R19,179 million. Deposits and investments were R615 million and R629 million respectively.

Management believes that by being clearly focused, keeping overheads low and providing exceptional personal service, Secfin's finance services will, within a reasonable period, provide satisfactory profits of a recurring nature.

Taiwanese bank ready for business

58 93
STAR 26/3/92

By Magnus Heystek
Finance Editor

The wave of foreign investment promised in the event of a referendum yes vote seems to have started.

Yesterday the Bank of Taiwan said it intended to start operating in SA with a capital investment of R50 million.

Earlier, British entrepreneur Richard Branson said he intended making large investments in SA.

Other deals are in the pipeline and a rash of similar announcements can be expected.

Bank of Taiwan has occupied a building in Rosebank for some weeks, awaiting the outcome of the referendum to announce its plans.

In an interview, MD David Chang, said:"Although all the obstacles to economic growth have not yet been removed, we feel confident about the South African economy.

"The outcome of the referendum was a "silver lining" and if violence can be scaled down, I believe that the SA economy has a great future."

According to Mr Chang, a career banker, he will initially concentrate on trade finance between South Africa and Taiwan.

"There are a great number of Taiwanese businessmen and manufacturers in South Africa.

"My bank will concentrate on them, but will also finance any kind of trade between the two countries," he said.

He added, however, that the bank would also act as financial gateway between South Africa and the whole of the Far East.

Bank of Taiwan, which is a registered deposit-taking institution, would at a later stage consider entering the local retailing market, Mr Chang said.

The local operation will initially be staffed by 20 people, five of whom are from Taiwan, with the rest recruited locally.

The bank will officialy open its doors on April 2.

Until then Mr Chang will have some time to sharpen his golf, which he calls the "best fringe benefit" he's ever had.

Drive alive!

Insurance scheme for commuters

58

STAR 26/3/92.

An insurance policy scheme aimed at protecting road and rail commuters in the event of death or disability in accidents or violence was launched in Johannesburg yesterday.

Robin Pogir, a director of the company behind the Safe Journey Commuter Policy, says it is aimed mainly at black commuters, but whites who travel by bus, taxi, aeroplane or train also qualify.

The policy covers any fare-paying commuter for a fixed amount, payable in cash, to his/her nominated beneficiary in the event of the policy holder being killed or permanently disabled while commuting.

It costs R50 a year, is paid in full on issue and provides cover of R10 000.

Individuals may purchase up to 10 policies and increase the cover to a maximum of R100 000.

Children over the age of five and under 16 qualify for the policy, but are only eligible to R5 000 life cover, irrespective of the number of policies bought.

Disability cover for children will increase from R10 000 to a maximum of R100 000, depending on the number of policies purchased.

The riots and strikes limitation clause has been removed from the provisions of the scheme, Mr Pogir says, adding that the policy has been undersigned by certain underwriters at Lloyd's of London.

War of the banks fought on service

(58) CT 21/3/92

By ARI JACOBSON

BANKERS are in agreement that undercutting competitors on price is no longer a sensible strategy in the industry — service now being the key element in attracting customers.

The old-fashioned way in banking was to build business by simply offering a lower price (interest rate) on anything from home loans to overdraft facilities.

But as First National Bank's senior GM Niel Swart says in the macro sense its now impossible to compete on price.

"Just look what happened when we lowered the home loan rate a few months ago by 0,5% to 19,75% — everyone followed — Standard Bank undercut us by a further 0,5% to 19,25% and then we followed."

He adds that competition is now taking place on a micro scale. "If we want to entice a corporate client to FNB, we match or outdo competitors on all product prices plus we throw in some free service which ties in with the particular company's profile".

That is where banking warfare is being fought, says Swart.

Nedcor's CE Chris Liebenberg mentions that building big balance sheets through asset expansion, without underlying profitablity, is past.

"Business is now based on sophisticated credit management with the risk weighed up against the reward."

Liebenberg adds that Nedcor will maintain its competitive edge by target marketing for specific styles.

"This is highlighted for example in the differing appeals of the Perm and Nedbank."

Standard bank Investment Corporation's (Stanbic) divisional GM home loans Duncan Reekie talks of the packaging concept for customers — with a wide array of services under various plans. There is the achiever plan focused on the youth market and the prestige plan for the go-getting client.

But this is not unique to Stanbic says Amalgamated Banks of SA's Mike de Blanche. Volkskas bank for instance has the cum laude plan for super-achievers.

De Blanche reckons that Absa's competitive edge will come from its strong branch network through Allied Building Society, Volkskas bank, United Building Society, Sage financial services and as from April with Bankorp's Trustbank, Senbank and Bankfin.

From a banks perspective the game plan among the big four is to attract credit-worthy clients.

Sowetan 26/3/92

[illegible] vote was a present

PROPERTY developers and owners could hardly have asked for a better present than the overwhelming yes vote in last week's referendum.

This was said by the executive chairman of the Murray and Roberts Properties Group, Mr Eric Field, when he opened the East Rand Mall in Boksburg.

Catalyst

58

He said that one interesting outcome of the referendum was the obviously exuberant and good-natured attitude of black and white shoppers towards each other.

"It seemed almost if the referendum result was the catalyst that we have all been waiting for to reach out and find each other," he said.

Dramatic

He added that while he did not expect a dramatic improvement in rent levels and property values, he nevertheless did expect a steady improvement and he had no doubt that March 17 would prove to be the turning point for the property industry.

Sankorp acquisition bid delays capital base plans

58

B/Day 26/3/92

WILLIAM GILFILLAN

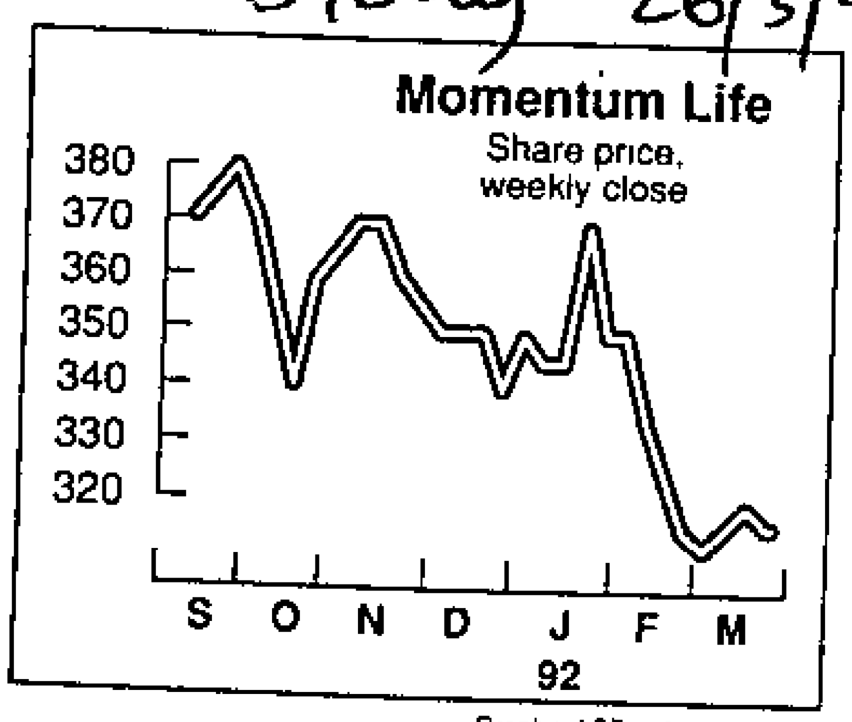
THE proposed acquisition by Sankorp of Absa's and Rembrandt's interests in Momentum Life had delayed the assurer's plans to strengthen its capital base, MD Niel Krige said yesterday when presenting the group's results.

The current limited capital base and a conscious decision to reduce single premium business saw premium income decline to R420m from R461m in the six months to December, he added.

However, helped by higher investment income and lower payouts on claims and benefits, the life assurer increased excess "income over outgo" to R291m from R283m.

On earnings a share, which rose to 12,8c (11,4c), an interim dividend of 7,5c (6,75c) a share was declared.

When the 1991 year-end results were published last September Momentum said it intended to strengthen its balance sheet. But the proposed Sankorp deal had delayed this.



Graphic LEE Source I NET

"A rights issue would be the most obvious route to take to recapitalise the group. But other possibilities were also being considered," he said.

Currently the group's shareholders' funds as a ratio of total funds is about 1,5%. As the ratio should be at least 3%, shareholders' funds would need to be increased to about R225m from R113m at the end of December.

On the group's closing price yesterday of 320c a share, about 35-million new shares need be issued which is over half the 70-million in issue.

In the R150m deal Sankorp is to acquire Absa's 30% stake and Rembrandt's 28,7% interest in the life assurer. Following the acquisition, Momentum will continue to operate under its current management.

Krige said the decision to reduce single premium business was taken over two years ago as profit margins in this area were limited.

"As the main source of profit in this area is derived from the difference between interest earned by the assurer and the interest paid out to the beneficiary, margins are narrow," he explained.

He noted the taxed surplus of R9m (R8m) represented 50% of the group's taxed surplus for the 12 months to end June. As a result the 12,8c earnings a share did not reflect this year's performance.

Bank retail deposit rates to drop

(58)

SHARON WOOD

B/Day 26/3/92

RETAIL deposit rates at all the major banks will move down by about one percentage point within the next week.

Absa and FNB would reduce their rates on April 27, Nedbank on April 28 and Standard Bank on April 1, a bank source said yesterday. Savings accounts through to fixed deposits would be affected.

The move follows the reduction in commercial banks' prime lending rate and will be the first significant reduction in retail deposit rates since March last year when prime came down by a percentage point.

At that time retail rates fell less than a percentage point because of the extremely competitive state of the market, a source said. While conditions were always competitive on the retail side, current conditions had changed from those prevailing last year and the market was more liquid.

The planned cut in retail rates was quite significant, he said. This would again bring wholesale deposit rates above retail deposit rates.

A Standard Bank spokesman said the interest rate cuts would vary because of the diversity of deposits, but overall rates would come down by a percentage point. Retail rates were never dropped by t[illegible] same amount across the board, he added.

FNB senior GM Norman Axten said [illegible]posit rates would decline by up to a percentage point.

Nedbank was still discussing how much rates would fall, but it would probably be in line with the other banks.

Taiwan bank expresses great confidence in SA

(58)

BDay 26/3/92

ADRIAN HADLAND

SA WOULD have one of the world's strongest economies within 20 years, Bank of Taiwan SA MD David Chang said this week.

The state banking institution of the Republic of China, with total assets of about R86bn, will open its first African branch in Johannesburg on April 2 this year.

The bank was welcomed to SA by the mayor of Johannesburg, Jan Burger, last night. The mayor said "there will undoubtedly be increased two-way trade and investment between the Republic of China and SA".

Focusing on trade and corporate financing, the bank hopes to act as a conduit for foreign investment, particularly from the Far East.

"We want to be a bridge to channel funds to meet the needs of industrialists here in SA," said Chang.

The Bank of Taiwan is the 33rd foreign bank to establish operations in Johannesburg, with many more looking into the possiblities, said Johannesburg City Council commerce and industry director Collin Wright.

"The fact that the Bank of Taiwan has selected Johannesburg as one of its key international locations is of great significance and is indicative of the commitment from that country in terms of investment in Johannesburg and SA," said Wright.

The Bank, one of the world's 150 largest, has 100 branches and 6 000 personnel mostly in Taiwan. Further branches are planned in Los Angeles, London, Amsterdam and Frankfurt while a New York branch was established in 1989.

The SA branch, which obtained its provisional banking licence from the registrar of Deposit-Taking Institutions in Pretoria in December last year, opens up next month with capital assets of R50m.

"Once the political uncertainties are eliminated, more investment will come. The potential here is so high," Chang said.

The bank's objective was to build up a base in SA, and in the longer term Johannesburg would become a gateway to the rest of Africa.

"Foreign investment from Taiwan mostly focuses on the Far East — Thailand, Singapore, Indonesia — because geographically and culturally, Taiwan is closer to those places. With the establishment of the Bank of Taiwan in SA, capital from the Far East will now have access to a direct channel for investment," he said.

AFDB chief due soon

STAR 27/3/92 (58)

African Development Bank (AFDB) president Babacar Ndiaye is expected to visit South Africa from March 29 to April 9, the Department of Foreign Affairs announced yesterday.

AFDB said in a statement issued through the department that the visit was at the invitation of the government, the African National Congress and the Development Bank of Southern Africa (DBSA).

The AFDB chief would hold discussions with major political parties, government ministers, financial institutions, business organisations, labour unions, religious bodies and civic groupings.

Mr Ndiaye said he had been heartened by the overwhelming white vote in support of the negotiation process, and that if the process was successful, South Africa could become a member of the AFDB within two years.

The AFDB Group, with total assets of $33 billion, is the largest financial institution on the African continent.— Sapa.

MONEY SUPPLY (58) (69)

Catching its tail

FM 27/3/92

Year-on-year money supply figures, which for so long masked a deceleration in the growth rate, are now hiding a sudden upturn. This can be seen by comparing growth in the broad monetary aggregate M3 from February to February — 10,83% — with growth from the mid-November base of the current target year to February — a seasonally adjusted annualised 16,34%. The annualised figure exaggerates the increase, of course, but it is an indication of the pace of change.

Revisions of seasonally adjusted annualised M3 growth for previous months have been published. This is because, from now, calculations will be based on mid-November 1991, where previous calculations related to mid-November 1990. They show growth to the end of:

- ☐ November of 39,74%;
- ☐ December 1,57%;
- ☐ January 12,09%; and
- ☐ February 16,34%.

The M3 figure for February is provisional. The full balance sheet of the banking sector will be reflected only in the revised estimate to be published next month.

In the past, discrepancies between the preliminary and final estimates of M3 have related largely to changes in the status of holdings of certificates of deposits. Those held by nonbanks are part of money supply while those held by banks are not. Changes of ownership are contained in the revisions.

Revised estimates for January show M3 grew 14,42% (down from 14,73%) to R183,9bn. Of the other aggregates:

- ☐ M2 grew 16,78% to nearly R155bn;
- ☐ M1 16,31% to R58,1bn; and
- ☐ M1A 16,83% to nearly R33bn. ■

COMMERCIAL PAPER (58)

Starting off slowly

Only AECI and Iscor have raised money via commercial paper since issuers of these instruments were exempted from the requirements of the Deposit-Taking Institutions Act in January. The slow start is not unexpected because: FM 27/3/92

- Paper markets are traditionally sluggish before a Budget;
- The referendum made prospective issuers more cautious, says Sarel Oberholster, head of treasury operations at Discount House of SA, which handled the AECI issue; and
- Commercial paper markets are usually slow to start, says Tom Makinson, of the

FM 27/3/92 (58)

Association of Corporate Treasurers, who notes that the present situation is not unlike that in the UK when commercial paper was introduced. There were onerous restrictions that later fell away. FM 27/3/92

In SA, the market will continue to be inhibited, as long as commercial paper requires a bank endorsement. The requirement, a concession to banks, is intended to be a temporary measure.

Meanwhile, Makinson says, the endorsement requirement removes the incentive to choose commercial paper above other sources of funds: "The cost of the endorsement is warranted only where credit-enhancement is needed."

As it stands, corporate paper is little different from a nonliquid BA, says Robin Marsden, of Deloitte Pim Goldby's financial services team. "So commercial paper will be in demand only to the extent that there is a demand for nonliquid BAs."

But AECI group treasurer Chris Sinclaire says commercial paper issues have some advantages over BAs: they are less costly — 0,25% commission is charged by banks for endorsement on each commercial paper issue as opposed to 0,5% on nonliquid BAs — and interest rates may float. "It is a cost-effective means of diversifying our sources of finance."

The new securitisation market is also facing impediments. Securitisation — the sale of parcels of assets as negotiable securities — was also given the go-ahead in January. But securitisation issues can be effected only by deposit-takers.

Another problem is that credit risk cover is difficult to obtain locally. Says Marsden: "UK insurers recently experienced losses in the securitised and general mortgage markets, and their local affiliates are now avoiding this type of business."

A further problem is the complexity of securitisation issues and lack of knowledge about them. ■

LIFE ASSURANCE (58)

But whose life?

FM 27/3/92

Provision for sinking funds, created by statutory bodies such as municipalities, is made in amending legislation to the Insurance Act. The draft has been circulated for comment among life assurers. If the measure goes through it will bring relief to treasurers of municipalities who needed the investment power of the life offices and independent portfolio managers, but who could, by using these outlets, run foul of the Finance Minister.

The saga goes back to the level-playing-fields debate when building societies successfully lobbied the Minister by arguing that municipalities' funds should not be held short-term by life offices. (Previously, most of this money had been lodged with deposit-taking institutions but much was switched to life assurers when inflation eroded the value of building society interest.) At about the same time, on pressure from deposit-takers, the life offices voluntarily agreed that they should hold no funds for fewer than five years.

Treasurers of many statutory bodies, including municipalities, were persistent in their search for better returns than they could find in short-term deposits. Having borrowed, for example, R10m from government, they would create a fund to effect repayment in 10 annual payments. The vehicle would be an endowment policy.

The first peculiarity of this arrangement was that to be tax-efficient such policies had to be in favour of an individual life. As municipalities pay no tax, that should have been irrelevant; but life offices did not have the systems to accommodate policies where there is no life assured, so statutory bodies had to nominate an individual policyholder. Ratepayers might have been surprised by the arrangement where, usually, a trio of officials were the purported beneficiaries.

The second oddity emerges in the latest report of the Auditor-General: "A statutory body is obliged, in respect of every investment it makes, to obtain a certificate from the institution concerned confirming that the institution has not paid and will not pay any commission in respect of the investment and that it has not given and will not give any

Contin

ECONOMY & FINANCE

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other consideration for the placement of the investment to an agent or intermediary."

Conventionally, of course, all life policies earn commission for the intermediary. But, the report complains, "due mainly to the fact that, contrary to a request by the Minister of Finance, dated September 1988, some statutory bodies make investments by taking out insurance policies with long-term insurers, there is an increasing number of cases where no certificates or only qualified certificates are furnished in regard to commission."

The proposed amendment appears tacitly to legitimise a well-established practice. ■

African bank boss to visit

B/Day 27/3/92 (58)

ABIDJAN — The president of the African Development Bank, Babacar N'Diaye, will pay his first visit to SA starting on Sunday, diplomatic sources disclosed yesterday.

They said an advance party was already in SA preparing N'Diaye's packed 12-day programme.

N'Diaye, a 54-year-old Senegalese, has been president of the regional bank since 1985.

SA is still excluded from bank membership because it is not a member of the OAU.

N'Diaye's visit will herald the start of open relations.

A bank press release on March 10 said membership of a democratic SA was "imminent".

The diplomatic sources said N'Diaye's visit was being organised with the government-owned Development Bank of SA, two of whose officials discreetly attended the bank's annual meeting last year for the first time.

N'Diaye said then he had also invited the ANC although it did not send a representative.

N'Diaye is expected to meet President F W de Klerk and ANC president Nelson Mandela as well as business leaders.

A growing number of African countries are moving faster than the OAU's step-by-step policy towards SA and edging towards full diplomatic relations.

Trade delegations to and from SA are criss-crossing the continent with many poor black states hoping to attract investment from SA.

Diplomatic sources in Abidjan said Ivory Coast Foreign Minister Amara Essy would fly to SA on Monday.

It will be the first time a West African foreign minister has paid a public visit to SA. — Sapa-Reuter.

INSURANCE FM 27|3|92

Checking checkers (58)

Public Adjusters, a Durban firm which has expanded to the Transvaal, gained fame fighting for aggrieved insurance claimants, sometimes using unorthodox methods.

Now the firm is crusading for something like a small claims court to be set up. And it wants the court to be funded from a levy on insurance policies so that high legal costs do not deter a person from contesting an insurer's decision to repudiate a claim or declare it void.

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Public Adjusters' MD Mike Gaines suggested this at the opening of the firm's Randburg offices this week. His proposal raises the questions:

- ☐ Would this be a useful tool for the consumer?;
- ☐ Does it add value to thc existing chain of consumer protection?; and
- ☐ Is it simply an exercise to raise the profile of Gaines's organisation?

Existing regulators include the Financial Services Board, brokers, loss adjusters, the ombudsman for the short-term industry and recourse to law.

The broad role of the FSB is to assess the ability of a registered insurer to pay claims. A broker will usually fight for the client's rights and sometimes succeed only to the extent that he has clout in the marketplace.

Ombudsman Bill Schreiner's office is only three years old. Gaines says: "His effectiveness is severely limited because he can act only in domestic claims." There are other limits to Schreiner's powers.

Loss adjusters have a strict ethical code which insists they must be impartial when assessing the insurance payout. They are paid by the insurance companies. The emergence of the "public adjuster" to represent the insured means the insurer has a new watchdog.

Gaines's firm works on a variable percentage but usually gets 2,5% of the payout on a commercial claim.

He says speed of settlement is sometimes more important in commercial cases than the amount paid out: "There is no sense in getting a R1m cheque months after your business has been liquidated because of events against which you were insured."

He adds that a procedure is needed to help the consumer who faces a R20 000 loss. Alternate dispute resolution is now being practised in 35 centres in the US. Prompted by high legal costs, procedures for either mediation or arbitration have been introduced. *Cover*, an SA insurance magazine, notes that "interestingly, insurance companies, rather than claimants, tend to take the initiative." There are now moves afoot to introduce a similar system in SA. ■

NEDBANK FM 27/3/92

Closed case (58)

The judge dismissed a claim of R5,5m instituted by the Standard Chartered Bank (Stancha) of Canada, against Nedbank, in the Rand Supreme Court last week.

Stancha Canada claimed that Nedbank caused it a loss of R5,5m when it advised that Triomf Fertilizer, Richards Bay, was trading normally and would, in these circumstances, be regarded as good for its normal business. The claim related to a general bank report requested, on Stancha Canada's behalf, by Standard Bank of SA in November 1985.

Stancha Canada claimed that, depending solely on that report, it extended the existing line of credit and subsequently discounted a bill of US$2,6m drawn by a Canadian sulphur exporter, Cansulex, on Triomf. It also waived recourse to Cansulex. This discounting was done about two months after the date of the report.

Triomf was liquidated in July 1986, before the due date of the bill and the bill was consequently not paid.

The judge distinguished between a general report and a specific report for a set amount and period. He concluded that Nedbank would not have known the report was required for a foreign client and for a foreign currency and said it could have been for 10 to 100 clients. If a liability was to be incurred in such circumstances, it would lead to limitless liability which is a liability for which our law does not and should not provide.

When Nedbank submitted the report, Triomf was millions of rands over its overdraft limit and Nedbank was reluctant to extend further credit. However, the judge ruled that Nedbank's advising that it regarded Triomf as good for its normal commitments, while trading at a loss, should not be interpreted as a misstatement of fact as Nedbank continued to "prop up" Triomf, allowing it to honour its commitments for a long period thereafter.

(58)

If a banker had to incur a liability under a general report, it would be better for him not to provide such a report. From the evidence, it appeared bankers regard a general report as a "snapshot" of a client on the day it is requested and it is not intended to be "prophetic."

The report also contains two remarks which should have attracted the attention of the person reading it: that the company had suffered setbacks and that the figures of the holding company were available. The evidence indicated that nobody in Stancha asked what those figures were. ■

INTEREST RATES

Reading the omens

FM 27/3/92 (58)

The announcement last Friday of a one percentage point fall in the official rate at which the Reserve Bank lends to the banking sector took some market players by surprise.

Earlier in the day, the Bank's weekly Treasury bill tender included — for the first time — six- and nine-month bills. So the Bank's own treasury did not signal a fall.

Also caught wrong-footed were those who expected that, with the market already discounting a fall in Bank rate of more than one percentage point, Reserve Bank Governor Chris Stals would announce a bigger reduction.

Disappointment was reflected in long rates. The benchmark Eskom 11% climbed from its Friday close of 16,045% to end Monday at 16,135%.

Whether a fall of one percentage point was appropriate depends, perhaps, on whether the recent surge in the official inflation rate — based on the consumer price index — or the rise in producer inflation is regarded as the most reliable indicator of the path of future inflation. Stals must have pondered over the conflicting evidence.

Since January 1991, when the CPI climbed 14,3% and PPI 14,4%, the two have moved in opposite directions (see P38). By January 1992, the gap between the two rates amounted to 9,5 percentage points. Traditionally, PPI movements precede those of CPI but this period of 12 months in which they have moved in opposite directions falls well outside the normal lag.

If PPI is an accurate reflection of fundamental inflation, there would certainly be a case for a larger fall in Bank rate. But Stals chose the path of caution because he knows the strength of inflationary perceptions. He must also have been influenced by the latest money supply figures which show a recent acceleration in the rate at which the broad monetary aggregate M3 is growing (see P36).

This is probably due in part to an inflow of foreign funds.

Though it is good news for the balance of payments, the inflow creates excessive liquidity in an economy protected by exchange controls — which is an important reason for Stals's decision to intervene in the financial rand market (see below).

The relaxation of hire purchase restrictions announced a day ahead of the announcement of a fall in Bank rate does not signal a change in monetary policy.

That the two announcements came within a day of each other is coincidental, Stals told the *FM*.

The decision on HP requirements was designed to help certain sectors — the car industry and furniture retailers — while the fall in the official Bank rate was a logical outcome of market conditions.

"We have reduced the rate to a level which we can defend," says Stals.

He has signalled that monetary policy will remain firm by setting the target guidelines for growth in the broad monetary aggregate M3 at 7%-10% for 1992, below the previous year's 8%-12%.

And on Tuesday, he was siphoning money out of the system with a R500m tender of special Treasury bills.

Stals stressed that the convention that banks should reduce their own lending rates in line with Bank rate no longer holds. He says they are free to set their rates according to their needs. But no bank took advantage of this to gain a competitive benefit in the market — all major banks announced one percentage point falls. They are reluctant to sacrifice margins and uncertain about liquidity in the market.

Rediscount bills

Along with the fall in Bank rate, other rates at which the Bank rediscounts bills for banks were lowered:

☐ On Land Bank bills to 16,15% (down from 17,15%) ; and
☐ On bankers' acceptances to 17% (17,5%).

The penal rate on overnight loans will be fixed at 1,5 percentage points above the prevailing prime rate. ■

FINANCIAL RAND

Package deal

FM 27/3/92

Reserve Bank Governor Chris Stals has equipped himself with a versatile new policy instrument. With one stroke he has found a way to reduce:

☐ Liquidity in the money market;
☐ The financial rand's discount against the commercial currency;
☐ Debt held in the standstill net; and
☐ Losses incurred on the Bank's forward cover operation.

For the first time since the financial rand was introduced in 1961, the Bank will intervene in that market. By using dollars to buy financial rands, it will offset inflows of foreign funds to the money market. Though determined "at the discretion" of the Bank, the exchange rate of the financial rand will be linked to the level of official reserves.

At the same time, the Bank will shrink the pool of financial rands which will increase the value of the unit. Stals implies in his statement that this is a first step towards abolishing exchange control. "As sanctions are now being lifted, unnecessary exchange control restrictions should also be phased out."

For some time, he has complained that exchange control has distorted SA's financial markets, creating liquidity which would not be there if market forces prevailed. This has the unfortunate effect of stimulating credit creation and driving inflation. Now he has found a way to tackle that problem.

He points out that foreign creditors with claims against the debt standstill net (now worth less than $6bn) can convert these into financial rand. They can then sell them, indirectly, through authorised dealers in foreign exchange, to the Bank. But, clearly the Bank could not absorb huge sums overnight, so transactions will be limited by availability of reserves.

As long as there is a discount, the Bank's finrand interventions will generate profits. At prevailing rates $100 will eliminate R350 in financial rands, at a cost to the Bank of only R290. These profits will be transferred to the Forward Contracts Contingency Reserve Account of the Treasury, held by the Bank, which had accumulated debits of R10,4bn by March 1991 — the latest available figure. Allocations from the Budget in certain years reduced the amount.

The immediate effect of the operation will

continued

More join 'stokvel clubs'

C/PRESS 29/3/92 (58)

MORE and more people are joining the Standard Bank Society Scheme, which works on the "stokvel" saving concept popularised by Andrew Lukhele, president of the National Stokvels Association of SA.

Standard Bank's John Holloway, divisional general manager of marketing services, said about the scheme: "The bank believes this to be a major step into a largely unexplored market but one which is considered to have exciting potential to narrow the gap between the informal and formal financial sectors."

One of the people who are excited by this new approach is Martha Ramothlola, treasurer of the Fanang Diatla Society which has been operating from Diepkloof, Soweto, since 1979.

ANDREW LUKHELE ... Popularised scheme.

The group, with 35 families on its list, first operated on an ordinary savings account before learning about the new scheme.

They see a lot of advantages with the scheme, such as higher interest rates and less hassles with withdrawing large sums of money.

Ramothlola said all that was needed was to present your ID and signatures on the form.

"You are also informed on how your money works for you," she said.

According to Alphina Kgarosi, treasurer of the Mandebele Burial Society which operates from Molapo, Soweto: "There are no interest charges with the 'Grey Book' (that's what stokvel groupings call the book for the scheme).

"We receive monthly statements and all members love it."

STANDARD BANK ADVERTISING FEATURE

A perfect account for clubs

(58) C/PRESS 29/3/92

SAFE SAVINGS . . . Nomsa Ndabandaba (left) hands over the folder sheet to Lerato Women's Club members, Yalezwa Makana and Buyi Radebe.

AT last! Now there is a perfect bank account for stokvels, burial societies and savings and investment clubs.

It is the Standard Bank Society Scheme.

The bank has talked to stokvel office bearers all over the country to find out what they want from their bank accounts.

The answers have helped the bank put together exactly what was needed, now and in the future.

Standard Bank has launched the scheme to help members make the most of group savings so they are never left out in this world of rocketing prices.

You pay no fees so your money grows faster.

There are also no bank charges deducted from group savings with the Standard Bank Society Scheme. No matter how often you pay in or withdraw cash, it costs you nothing to use your club's account.

The scheme operates with a specially designed savings book in which every deposit and withdrawal is recorded. It also shows each month's interest, earnings and the current total balance. This way you always have the facts and figures you need.

If you wish to withdraw funds at a Standard Bank branch other than where the account is kept, arrangements can be made by visiting the branch where the account was opened.

The more you save the more you earn as the scheme pays a tiered rate of interest. This means that the more money you have in your account, the more interest the bank pays.

From time to time, in December for example, you might need to withdraw every last rand from your group savings. The scheme allows you to do so without the account being closed. There is no "minimum balance" and the bank keeps your account open, ready for you to start building your savings again.

When you withdraw money from the Society Scheme account at least two authorised persons must sign the withdrawal slip and identify themselves. This adds the security members expect.

STEP INTO HIGH FINANCE ... New bank scheme will make saving a celebration.

If you and your members feel safer with more than two authorised signatures, the bank can arrange that.

Call in at any Standard Bank branch with the members you have selected to sign on behalf of the group and ask for your Standard Bank Society Scheme to be opened.

Saving is important as it helps you to cope with financial pressures.

Having money put away will give you financial security and peace of mind.

Saving is an important way to secure a good future for yourself and family – be it in the form of saving for school fees, a deposit on a new home, new furniture or merely to be prepared for any emergency expenses that may arise.

The next question is: 'Why should we have a savings account?' It is always better to keep your money in a savings account rather than lying around for the following reasons:

■ Your money is safe and there is no danger of it being stolen or lost.

■ With the Society Scheme, the money can only be made available to a group, so you can enjoy peace of mind because no one else has access to your money.

■ In a savings account, your money will be kept away from temptation so you cannot spend it on something other than what you are saving for.

A safe scheme for savings

CPRESS 24/3/92 (58)

By NOMVULA KHALO

THE Lerato Women's Club is one of the group savings clubs to have opened an account with the Standard Bank.

The club was recently handed a folder sheet by the bank's customer consultant, Nomsa Ndabandaba, to enable club members to keep track of their financial record with the bank.

Yalezwa Makana and Buyi Radebe were two of the Lerato Women's Club members who opened the account under the bank's Society Scheme.

The purpose of opening such an account is to introduce a new concept to women's clubs where they will be able to put their money in a safer place – instead of choosing a treasurer within the club and asking her to take care of it.

Accepting the folder sheet this week, Makana said: "The society scheme is a good idea because there are no service charges and you earn interest."

Outlining the nature of the women's club, another member Radebe said their club consisted of 25 members who met on the first week of every month.

She said each member pays R100 every meeting, which is taken to the bank for saving and drawn in December. The total amount is then divided among the members.

Makana thought the scheme was a great idea to help the community save money for specially selected projects.

"By taking advantage of the scheme you know that at the end of the year you can take your family on holiday with the money you have saved throughout the year," she said.

"Before Standard Bank offered this service we saved our money using extremely primitive methods.

"We used to go to another member and give her the table money, leaving it under her sole care.

"This was too risky for one could not guarantee the safety of the money."

She said they were extremely happy with the Standard Bank scheme, which besides keeping their money in safe custody, was also adding interest to their initial savings.

WHERE THERE'S SMOKE ... Stokvel members make up for lost time socialising at a shebeen in Soweto.

SA soon to become a member of African bank

STAR 30/3/92 (58)

South Africa can expect to become the 52nd African member state of the African Development Bank "in the very near future", says ADB president Babacar N'diaye.

But South Africa must first become a member of the Organisation of African Unity.

Mr N'diaye said on his arrival in Johannesburg yesterday that he was in South Africa to salute all the parties involved in the democratisation process.

The developments in South Africa were much in line with the processes being carried out in the rest of Africa, he added.

The African Development Bank is Africa's equivalent of the World Bank and has a total of 76 members, 51 from Africa and the rest from industrialised nations including Japan, the US and France.

Mr N'diaye said he hoped his visit to South Africa would lead to the ADB being able to offer its assistance in development programmes in South Africa.

He was optimistic discussions with the political, non-political and business organisations would be fruitful.

The nine-member ADB delegation is scheduled to hold meetings with all the major political groupings including the ANC and Inkatha.

They will also be holding discussions with organised business, non-governmental development agencies as well as the Industrial Developement Corporation and the Small Business Development Corporation.

With regard to membership of the ADB, sources close to the agency indicate that South Africa may become a member within the next two years.

Qualification means becoming a member of the OAU.

Mr N'diaye was invited to South Africa by the Development Bank of South Africa, the ANC and the Department of Foreign Affairs.

He is scheduled to leave on April 9. — Sapa.

index of leading indicators bruary will be markets' first or a second opinion on the chasing Management (NAPM) could easily complete an optimistic 1-2-3 for the US economy. The NAPM survey showed its tural recruitment to complete what should be a favourable week for the US economy, the dollar, and the White House.

MONEY MARKETS by Sheridan Connolly

Expected Bank rate cut had little effect

B/Day 30/3/92

THE Bank rate cut had little effect on the local money market last week as the market had already discounted for a cut in excess of the 1% drop announced by Reserve Bank Governor Chris Stals.

Meanwhile, strong liquidity continued to exert downward pressure on rates and the three-month BA rate dropped a further 30 points last week to 15,50% compared with 15,80% at the beginning of the week. This is the lowest level since February 1989.

The Reserve Bank's weekly Treasury Bill (TB) tender continued to reflect good demand for quality assets. The Bank again issued a triplicate tender with the R200m issue spread over three, six, and nine months.

All three issues were well subscribed — the Bank received R917,6m for its R100m three-month Bills on offer at an average rate of 15,0% while the six- and nine-month tenders received R454m and R350m at an average rate of 14,7% and 14,2% respectively. (SS)

Last week's six- and nine-month tenders were not as well subscribed as they were the previous week when players were still expecting a Bank rate cut. With the 1% drop in Bank rate to 16% from 17%, players should stay short until expectations for a further dip in Bank rate develop.

Solid demand for the three-month TB last week and weaker demand for the other two maturities reflected the hunt for short-term paper. The three-month TB rate also continued its downward slide to 15% at the end of last week from a previous 15,48%.

Capital market rates took a breather last week to recover from the effects of the referendum, the Budget and the Bank rate cut which boosted the market sharply. Rate moved sideways in a lethargic market. The post-referendum increase in foreign buying did not hold last week and lower foreign interest capped bullish sentiment.

Capital market rates largely ignored the spate of economic indicators released last week. Consumer inflation, producer inflation, money supply and trade figures all showed positive developments and boosted hopes for a sooner-than-expected upturn in the business cycle. But capital market rates were not much affected by the bullish sentiment.

At the end of the week, the benchmark Eskom 168 had hardened to levels around 16,12% from a previous 16,10%. The government long-stock RSA 150 was also higher at 16,35% from 16,30%.

The Reserve Bank continued with its battle against strong liquidity levels and issued two special TB tenders in an effort to drain the market. At the end of the week the money market shortage was higher at R1,09bn from a previous R843m.

Life assurers hope for tax Act change

Bday 30/3/92 (58)

LINDA ENSOR

CAPE TOWN — The life assurance industry is hoping that the three-fund principle for the taxation of life offices — announced by Finance Minister Barend du Plessis in his Budget review — will be incorporated into the Income Tax Amendment Act.

This usually comes before Parliament in about June. The Act implements the Budget proposals. It is expected that the Sixth Schedule to the Income Tax Act will be scrapped soon and replaced by a regulation in the Insurance Act.

Life Offices' Association (LOA) director Jurie Wessels said initial calculations indicated that the life industry as a whole would pay less tax should the three-fund proposal be implemented, although life assurers which concentrated on retirement business could end up paying more.

Currently life offices operate two funds: an untaxed fund derived from retirement-related policies, taxed in the hands of the beneficiary; and a taxed life fund. The assurer is allowed to deduct only 55% of the life fund's gross expenses, has to include dividend income as part of taxable income and must apply the top marginal rate for policyholders instead of the average rate, which the industry believes should be applied.

The assurer as a company does not pay tax on surpluses derived from the untaxed fund.

The Equal Competition for Funds in Financial Markets committee — chaired by Finance Minister Barend du Plessis' special adviser Japie Jacobs — recommends three funds. In addition to the taxed policyholders' fund and the nontaxable pension, provident and retirement annuity fund, it envisages a corporate fund subject to the company tax rate.

Wessels said the corporate fund would consist of the surpluses of the taxed and untaxed funds.

Pleasing to the industry is the fact that the trustee principle would apply to the policyholders' fund. All expenses would be deducted for tax purposes, no tax would be paid on dividends and the average marginal rate would be applied.

Wessels said a committee of life assurance actuaries, Inland Revenue and Financial Services Board officials were working out the details of the proposals, such as how to allocate shared overheads to the three funds and how to provide for the tax treatment of money channelled from one fund to another. Mutual assurers which did not have corporate funds would have to create them out of their untaxed free reserves to comply with the new dispensation.

Take things into your own hands

STAR 31/3/92 (048) 58

SPRUCE UP Homeowner blues is a common ailment as high mortgage interest rates continue to depress the market. But you don't have to buy a new house to live in a new home. PAULA FRAY reports.

THAT roof over your head doesn't have to be stuck on top of four boring walls

You can make the most of your home with little more than elbow grease and imagination

Tightened belts and the high cost of skilled labour mean more and more homeowners are doing their own renovations With a bit of imagination even the most mundane home can be spruced up.

So don t wait for spring before clearing away the dust and noticing the marks on the wallpaper, the chips in the paintwork or the stains on the ceiling

Johannesburg estate agent Liz Coleman says sellers often see their homes in a different light once they have been spruced up for a show day

'Someone who is ready to put a house on the market will say· 'Now why didn't I do this for myself?'," says Mrs Coleman

The first thing homeowners need to do is distance themselves from the house and make an objective, cold calculated list of what can be done and what they are prepared to do

'It's like preparing for a wedding day . you want to make the most of your home," she says

The first thing is to get rid of accumulated junk. Painted surfaces should be cleaned Ensure all the doors are varnished or painted and all the hinges are in working condition.

Good-looking doorways are appealing, says Mrs Coleman

She says homeowners should isolate what needs to be repaired or replaced, items such as curtain rails and fittings are inexpensive to replace

Sandton branch manager of a leading estate agency Barbara Bowes suggests that homeowners prepare their homes as if they are going to have a show day A fresh coat of paint "works wonders"

Outside, the garden has an important role to play Bring in some colour — and you don't have to buy expensive plants for this Put up hanging baskets or hand-paint existing pot plant holders.

Then homeowners need to get around to the job jar and do all the repair work being put off for another day.

"You need to see to the general maintenance and get rid of all the rubble . when all this is cleared away it gives the house a lift," says Ms Bowes.

By spending time on your home you save money on entertainment while improving the value of your home. Talking to friends whose homes are in good shape helps, she says

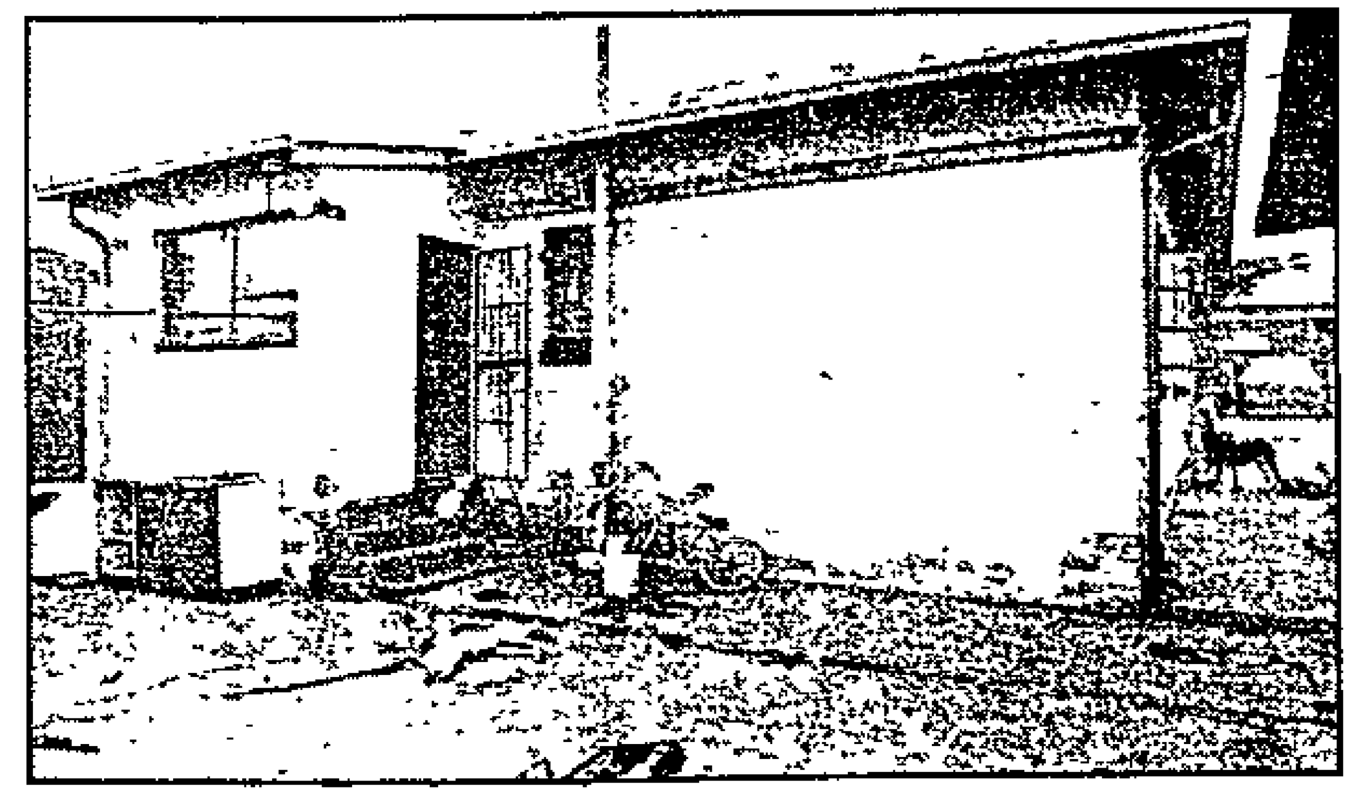
One new homeowner found herself with an odd combination of steel and pine kitchen cupboards. However, when they were given a good coat of the same colour paint, a feeling of a fitted kitchen emerged.

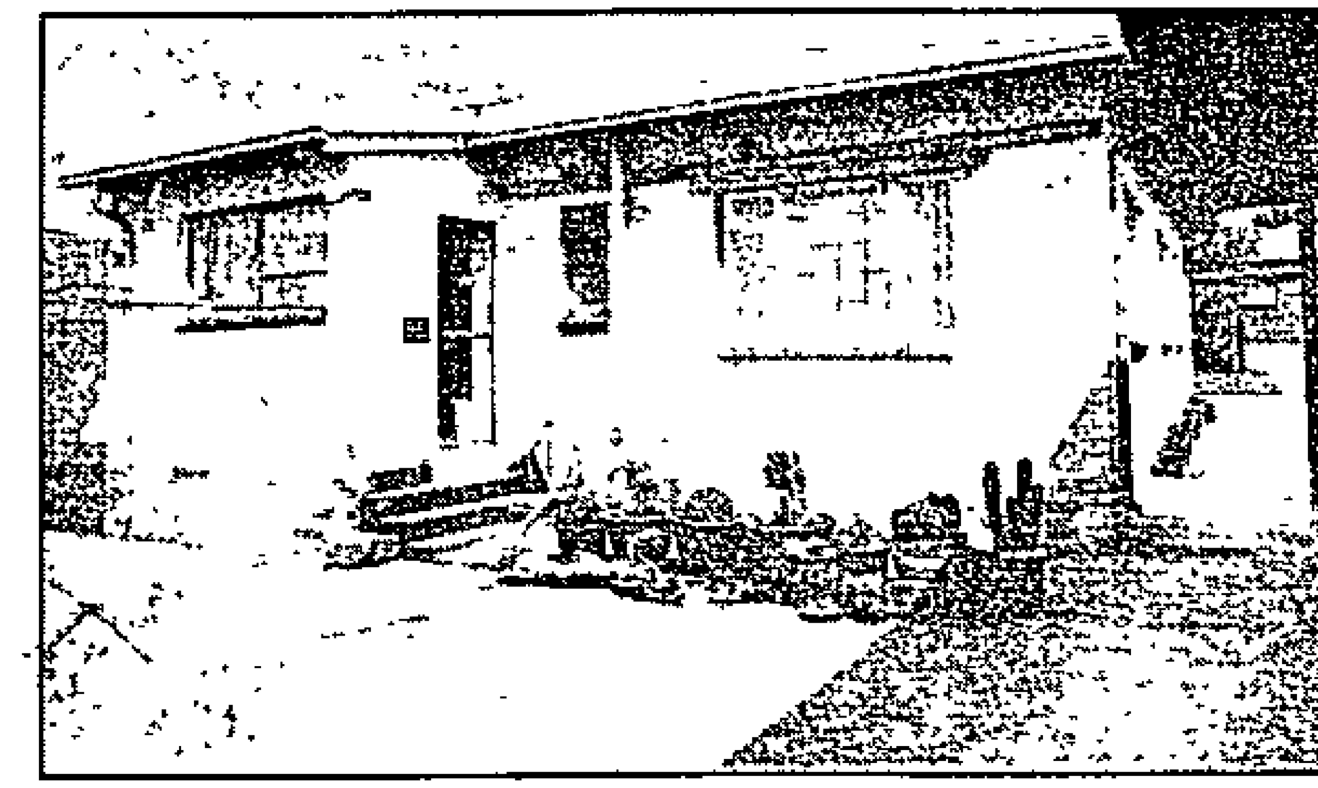
Another homeowner swears that if you are going to redo anything, especially tiling and painting, you should keep the colours neutral to highlight colours of fittings such as curtains.

If a door is not necessary — for example a lounge door that is seldom closed — consider removing it permanently to give more space

Curtains should be kept light to let in sunlight and avoid a dark, dingy feel.

And, as for those dust collectors — ornaments which have piled up over the years — consider sifting them out and donating unwanted ones to charity fetes





Working a transformation . . . top left: the daunting task of cleaning up and renovation lies ahead. Top right: things begin to take shape as the rubble is removed, potted plants are laid out on the cemented area and a window is added. Left. an artist's impression of the homeowner's future plans to lift the concrete, plant grass and flowers and re-style the backyard as an entertainment area.

Inform

Business squeeze means boom in debtor insurance

BDay 31/3/92 (58)

GIVEN the depressed economy and the rising number of companies experiencing the squeeze, it's hardly surprising that business is booming for SA's newest Credit Underwriting Agency, CUAL.

The three-year-old CUAL was launched because of a perceived demand for local credit insurance and judging by the fact that some 75% of its business is new to the industry, the perception was on target.

CUAL MD John Manners says indications that CUAL has grown the market are evidenced by the fact that companies which were not traditional insurance users are now insuring their books.

These include companies in the computer, freight forwarding and chemical industries.

To date work has focused on local insurance business, but this will soon be broadened to include export business.

The specialities of three groups are the key to CUAL's ongoing success.

Expertise

The groups are Commercial Union, Hollandia Reinsurance and KreditInform.

Manners, who has been involved in both insurance and reinsurance, has the necessary expertise to ensure that the speciality expertise of each is utilised to its fullest potential.

"Our portfolio of business shows the traditional spread found in most insurance books, with some focus areas being the clothing and textile, building, steel and engineering industries," he says.

For credit insurance policies to be established, limits are set for each debtor and the activity of debtors is then monitored on an ongoing basis; a credit management function may often be necessary.

"Clients get management reports so they can identify problem accounts early and sort things out before they become too serious.

"Effectively, clients have an administrative system outside their offices which is monitoring debtors — and more specifically, problem debtors.